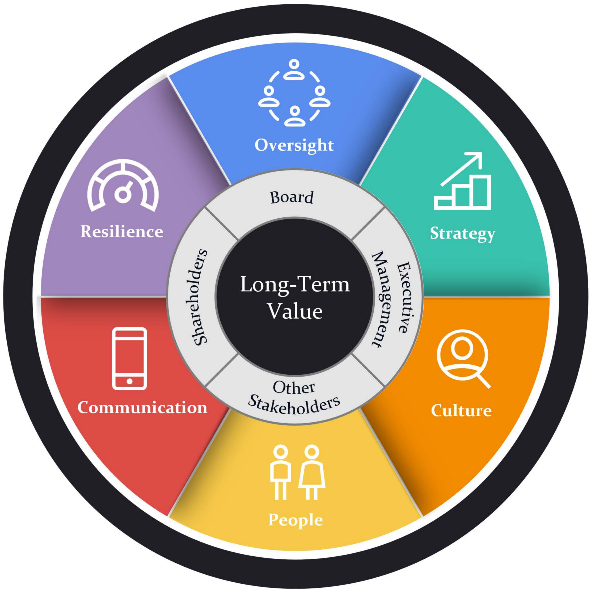
Corporate Governance Framework

May 27, 2025



Public Exposure Draft

To submit comments on this Public Exposure Draft, please visit the CGF Public Exposure page. Responses are due by July 11, 2025.

A summary of comments received will be published shortly after the conclusion of the public comment period and will remain publicly available for approximately 90 days.

For any further questions, please feel free to contact us.

COSO
COMMITTEE OF SPONSORING ORGANIZATIONS

NACD

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), in collaboration with the National Association of Corporate Directors (NACD), awarded PwC US Consulting LLP a professional services agreement to assist COSO in developing a *Corporate Governance Framework (*CGF). The CGF aligns with COSO's existing *Internal Control—Integrated Framework* (ICIF), updated in 2013; COSO's *Enterprise Risk Management* framework (ERM Framework), updated in 2017; and COSO's *Fraud Risk Management Guide*, updated in 2023. The CGF uses the principles-based approach of COSO's prior frameworks to help guide entities through the rapidly evolving corporate governance environment.

COSO is a globally recognized organization dedicated to providing thought leadership that enhances governance, risk management, internal control, and fraud detection, primarily through the development of comprehensive frameworks and guidance to help entities reduce fraud and improve performance and oversight. COSO is a private-sector initiative, jointly sponsored and funded by:

- American Accounting Association (AAA)
- American Institute of Certified Public Accountants (AICPA)
- Financial Executives International (FEI)
- Institute of Management Accountants (IMA)
- The Institute of Internal Auditors (IIA)

The NACD is the leading U.S. member organization for corporate directors who want to expand their knowledge, grow their network, and advance their potential. It offers corporate director education, resources, and best practices to enhance board leadership and governance effectiveness.

Committee of Sponsoring Organizations of the Treadway Commission

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The members of the Advisory Council were selected by the COSO Board and NACD. Consideration was given to each member's corporate governance knowledge and expertise to provide advice and feedback in connection with the development of the CGF.

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Foreword

Strong corporate governance is more than a safeguard—it's a strategic advantage. It provides the clarity, agility, and oversight that an entity needs to seize opportunities, manage risk, and stay resilient through disruption. As strategies shift and markets evolve, so too must governance. Done right, it boosts trust, strengthens reputation, attracts investors, and drives long-term shareholder value.

The United States has the world's leading capital markets and exchanges, yet there has been no integrated and comprehensive corporate governance framework to guide boards, management, and stakeholders. While the marketplace offers thoughtful guidance, a practical framework can connect the interrelated aspects of governance into one clear and actionable framework.

This corporate governance framework offers a common language, one grounded in enduring principles but flexible enough to adapt to each entity's unique reality. It aims to enhance agility, clarify roles, and extend accountability beyond the boardroom: shaping culture, guiding decisions, and building stakeholder confidence at every level.

Meaningful improvements in corporate governance have often followed major corporate failures or crises, moments that exposed gaps in oversight and catalyzed broader reform. But in today's complex environment—marked by shifting expectations, disruptive technologies, and evolving business models—waiting for crisis is not a viable option.

COSO's Definition of Corporate Governance

Beyond the Boardroom: A Broader Viewpoint

COSO encourages a holistic approach to defining corporate governance, extending beyond the boardroom to encompass the practices, information channels, and processes that govern how an entity is being directed, managed, and controlled.

Corporate governance involves the oversight and processes by which an informed board and management team steers an entity toward executing its strategies and goals while maximizing long-term shareholder value in an ethical manner and within the relevant legal and regulatory environment.

Corporate governance focuses on principled behaviors and well-defined policies, standards, and practices to delineate authority and responsibility, inform and guide decision-making, and facilitate the flow of reliable information throughout an entity.

Corporate leaders should take the opportunity to proactively align governance with the demands of a fast-moving business environment. Making this work begins with asking two key questions:

1. Is your corporate governance truly fit for purpose?
2. What governance expectations or standards are being used to guide that determination?

These questions are more than reflections—they offer a real opportunity. Corporate governance practices are frequently inherited and challenged only when something goes wrong or there are external disruptions. Today's boards and executives have the chance to take a more deliberate and forward-looking approach: reassessing existing practices, identifying blind spots, and making intentional choices about how they lead, govern, and build trust with stakeholders.

Many stakeholders increasingly expect boards and executives to be accountable, transparent, and oriented toward long-term value, even when facing short-term pressures. A strong corporate governance framework can close that gap—not by imposing rigid rules but by making effective governance the norm.

Current State of U.S. Corporate Governance

U.S. Corporate Governance Drivers

Corporate governance practices in the United States, while they vary by entity, are shaped by a baseline of expectations established by courts, regulators, investors, and market forces. Much of the variation stems from an entity's state of incorporation, with Delaware long considered the leading jurisdiction due to its robust statutory and case law. Other states have begun to develop and strengthen their own governance structures, with additional differences arising based on listing exchange requirements, regulatory environments, organizational size, and the nature of an entity's shareholder base.

State Corporate Law

- State corporate law governs the formation, operation, and dissolution of corporations within each state, providing a legal framework for governance, shareholder rights, and fiduciary responsibilities.
- States with well-developed statutory and case law provide many commonly used U.S. corporate governance maxims and rules, such as director and officer powers, duties, fiduciary responsibilities, and corporate structuring and control. In some cases, state rules serve as a model on which other states and countries can rely. Differences create space for competition over corporate incorporation.

Federal Statutory and Regulatory Requirements

- Lawmakers have typically developed federal statutes, regulations, and rules—e.g., the Foreign Corrupt Practices Act, Sarbanes-Oxley Act, Dodd-Frank Act, and USA PATRIOT Act—in response to major corporate failures, financial crises, or fraud.
- Often, such laws and regulatory requirements focus on specific aspects of corporate governance and financial markets. For example, the Securities Act of 1933 and the Securities Exchange Act of 1934, along with the regulations enforced by the Securities and Exchange Commission, establish key disclosure and compliance obligations for U.S. public companies.

Stock Exchange Listing Requirements

- The New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (Nasdaq) are the pre-eminent U.S. listing exchanges. They each have listing standards for equity and debt securities traded on their platforms.
- The specific corporate governance requirements include but are not limited to board independence, committee structure, audit and other committee composition, and the adoption of governance guidelines and a code of ethics and conduct to promote transparency, accountability, and ethical conduct. For information on NYSE and Nasdaq governance requirements, please see the Appendix of PwC's guide *Going public? What you need to know about corporate governance* (available at www.pwc.com/us/ipo).

Market-Based Solutions or Rules

- Shareholders, market intermediaries, and proxy advisors may seek influence to effect systemic or entity-specific change and adoption of new or evolved corporate governance standards.
- These changes tend to be adopted in waves, often led by large-cap corporations that set the tone for broader market practices. While adoption varies, there's growing interest in developing more flexible governance standards applicable to companies of different sizes, industries, and stages of maturity.

Navigating the legal and regulatory environment of corporate governance involves understanding governance requirements and standards unique to each entity, often based on size and jurisdiction. But corporate governance must go beyond compliance and regulatory requirements. Durable, principles-based guidance can bring cohesion to this evolving landscape, offering a foundation while enabling adaptability over time.

Business Case for COSO's Corporate Governance Framework: Why Now?

For corporate governance to be a strategic enabler that drives long-term value creation, it has to align decision-making with purpose, direction, and strategic priorities. While many entities may devote significant time and resources to developing strategy, leaders often take corporate governance as a given or address governance issues in isolation. Without strong governance, based on a comprehensive, system-wide set of policies and procedures, even the soundest strategies can falter. Using a well-defined corporate governance framework to assess and continuously improve practices fosters greater transparency by clarifying roles and responsibilities, enhancing accountability, and improving reliable information flow.

The Case for a Comprehensive Corporate Governance Framework

Corporate Governance Is a Competitive Advantage

Most leaders today understand that corporate governance is about more than compliance and protecting current value—it offers a means by which entities can strengthen strategy and set direction to further long-term value creation. Strong governance can enhance reputation and brand, build workforce and customer trust and loyalty, attract investors, and boost overall stakeholder confidence. By promoting clarity in decision-making, aligning behaviors with the entity's purpose, and enabling faster, more informed responses to opportunity and risk, governance helps entities operate with greater agility and resilience.

The Risk Landscape Is Broadening

Entities must contend with many significant threats, including shifting economic conditions, cybersecurity breaches, uncertain regulatory change, geopolitical conflicts, resource and labor scarcity, social and investor activist pressures, and potential reputational damage. These risks are increasingly complex and interconnected, making effective oversight by boards and executive management ever more challenging. Using a comprehensive corporate governance framework to evaluate, implement, and monitor corporate governance practices is essential to protect the strategy from value erosion and support effective risk management.

Issue-Specific Governance Is Increasing Complexity

Leaders today face a proliferation of specialized governance models, covering areas such as cybersecurity, artificial intelligence (AI), data, and supply chain management, each with distinct expectations, policies, and assessment criteria. This fragmentation, with conflicts and overlapping guidance, can slow decision-making, dilute strategic clarity, and challenge boards striving to maintain cohesive oversight. Adopting a unified corporate governance framework with a well-defined structure and processes can help entities align and integrate these disparate efforts and enable more efficient and effective change and growth.

Entities Are Adapting to a Multi-Stakeholder Model

For decades, public companies have largely operated under the principle of shareholder primacy, which holds that an entity's primary obligation is to maximize value for its shareholders. While accountability to shareholders remains foundational, most leaders now understand that delivering long-term shareholder value requires meaningfully considering the interests of other stakeholders as well. To truly maximize shareholder value, entities must also consider the full range of stakeholders whose engagement and well-being directly influence business performance and resilience. This robust view is not about diluting shareholder interests but about strengthening them, since these stakeholders often share in the entity's risks and are critical to executing strategy and maintaining competitive advantage. A multi-stakeholder perspective, when clearly governed and aligned with purpose, supports more informed decision-making and enhances the entity's ability to generate long-term shareholder value.

Technology Is Transforming Information and Communication

Technology is transforming how entities operate, communicate, and compete by introducing new opportunities while also amplifying complexity and risk. Corporate governance must evolve to match the speed and scale of change brought by disruptive technologies such as generative AI (GenAI), edge computing, and data-driven decision-making. As cyber threats intensify and market disruptions become more common, corporate governance plays a critical role in managing risk, protecting assets, and enabling informed, agile responses. Tools like analytics systems, board platforms, and sustainability data pools are reshaping how leaders execute oversight, allowing entities to stay ahead of disruption, strengthen trust, and lead with purpose.

Governance Is at All Levels

Corporate governance extends beyond the boardroom; it helps guide practices throughout the entity. While the board provides oversight and executive management drives execution, governance delivers the greatest impact when integrated into every level, engaging the full workforce in shared behaviors, systems, and values. A cohesive corporate governance framework connects decision-making at the top with day-to-day actions throughout the entity, clarifying roles and reinforcing accountability. Culture illustrates this connection clearly: it is shaped, lived, and sustained by employees at every level. When corporate governance is explicitly linked across all organizational layers, not just within leadership circles, it becomes a powerful driver of alignment, resilience, and sustained value creation.

Why Should Entities Focus on Corporate Governance Practices?

- Enhance competitive advantage by strengthening reputation and driving long-term value creation
- Safeguard organizational value through proactive risk management and oversight
- Confirm that governance model is fit –for purpose now and into the future, considering technological advances, emerging disruptive risks, and the full range of stakeholders
- Uphold ethical business practices and corporate responsibility, promoting integrity and accountability

What The Corporate Governance Framework Is and Is Not

Given the scope and intended audience, it is important to understand the CGF's boundaries.

What It Is:

- ✓ Tailored to U.S. public companies but useful to non-U.S. public companies, global companies, private companies, and public-sector organizations
- ✓ Cognizant of existing laws and regulations
- ✓ Agnostic of industry and size of organization
- ✓ A leading practices-based approach for corporate governance
- ✓ Consistent in style and substance with other COSO frameworks

What It Is Not:

- × A set of suggested regulatory standards for the U.S. market
- × Intended to supplant current or future regulatory requirements
- × A one-size-fits-all approach

Who Benefits the Most from the Corporate Governance Framework?

Designed for entities of varying sizes, industries, and jurisdictions, the CGF serves as a valuable resource for all corporate governance stakeholders. It recognizes the critical governance roles played by boards, executive management, shareholders, and other internal and external stakeholders. The CGF offers leading practices and principles-based guidance that stakeholders can apply depending on their distinct roles and influence within the governance ecosystem.

- **Boards.** The CGF's flexible yet comprehensive approach empowers boards to confirm that their approach to corporate governance aligns with their entity's values, strategy, and long-term objectives. Boards can use the CGF to establish the tone and direction for the entity, reinforce cultural expectations, and evaluate how governance supports stakeholder trust and strategic execution. The CGF also provides a structure for assessment, enabling boards to routinely evaluate the structures that support their work, assess their own effectiveness, identify areas for improvement, and strengthen their oversight of management.
- **Executive management.** The CGF is designed to support executive management in acting based on a deep understanding of the entity's unique needs, while balancing that authority with accountability and transparency. It serves as a guide to help leaders confirm that their approach is grounded in leading corporate governance practices and aligned with the entity's strategic goals. Executive management can use the CGF to assess and strengthen governance practices to enhance decision-making.
- **Shareholders.** The CGF offers an opportunity to increase visibility into governance practices and processes, helping shareholders understand how executive management is working to meet their expectations. Shareholders can use the CGF to develop engagement strategies to determine whether an entity's approach to corporate governance is aligned with how shareholders expect it to deliver value. It can serve as an assessment tool for evaluating corporate governance effectiveness, helping shareholders assess companies.

- **Management and employees.** The CGF offers insights on connecting management and employees to the decision-making and strategies set by the board and executive management. Management can use the CGF as a guide to navigate their roles in supporting, informing, and implementing those decisions and strategies. It also aims to clarify governance roles, from management up to the board, and to show how to operate effectively within this structure.
- **Other stakeholders.** Stakeholders can use the CGF to assess governance practices, inform policy development, and strengthen oversight efforts. For example:
  - *Regulators and policymakers* can evaluate market conduct and consider updates to regulatory expectations or governance standards
  - *Investment professionals* can analyze how governance practices align with evolving leading practices and market priorities
  - *Assurance providers and oversight functions*—including internal audit (IA), external consultants, compliance functions, and other assurance providers—can benchmark governance practices and provide independent evaluations
- **Growing and evolving organizations.** The CGF provides a principles-based approach designed for smaller, privately held, or growing entities that recognize the need for more comprehensive and structured governance guidance. Elements of the CGF can guide boards and executives of these organizations in establishing an organization-wide approach to creating and sustaining value in today's dynamic business environment.

By offering a common structure and language, the CGF promotes transparency, strengthens accountability, and fosters consistency across corporate governance practices, enabling all stakeholders to engage more effectively in governance processes.

How to Use the Corporate Governance Framework

The CGF is designed to help entities assess and enhance their corporate governance practices in alignment with their unique organizational needs. The goal is not to impose new mandates but to outline widely accepted principles that enhance governance effectiveness. By emphasizing leading practices, the CGF aims to be a valuable reference that leaders can tailor to their entities' specific circumstances. This approach allows corporate governance to remain both consistent and adaptable, strengthening oversight and decision-making without being overly prescriptive.

Of course, navigating the legal and regulatory governance environment involves understanding industry-specific requirements and governance standards, often based on size and jurisdiction. To understand and comply with specific legal and regulatory requirements, leaders should consult their entities' legal and tax advisors.

The Framework's Broad Applicability

While the CGF highlights leading corporate governance practices for U.S. public companies, it also aims to provide a common language for governance that may be applicable to other types of entities. Though significant legal, economic, and business implications exist for various legal structures, the CGF primarily uses the word *entity* to emphasize its broad applicability and to be consistent with other COSO frameworks.

How the Corporate Governance Framework Was Developed

The team followed a rigorous development process involving multiple stages of primary research and collaboration with corporate governance professionals. COSO conducted extensive market research to validate the business case for developing such a framework. And the team reviewed established corporate governance frameworks from around the globe and leveraged subject-matter knowledge from COSO, NACD, and PwC.

The COSO Board appointed an Advisory Council to provide strategic advice, share leading practices, and balance diverse stakeholder interests. Additionally, official Observers were selected to provide perspectives through a regulatory and policy lens.

The development process also included stakeholder interviews spanning multiple roles across sectors and entity types, peer roundtable discussions to gather additional market insights, and a 45-day public exposure period—all providing valuable guidance that helped inform the CGF's development.

Corporate Governance Framework Structure

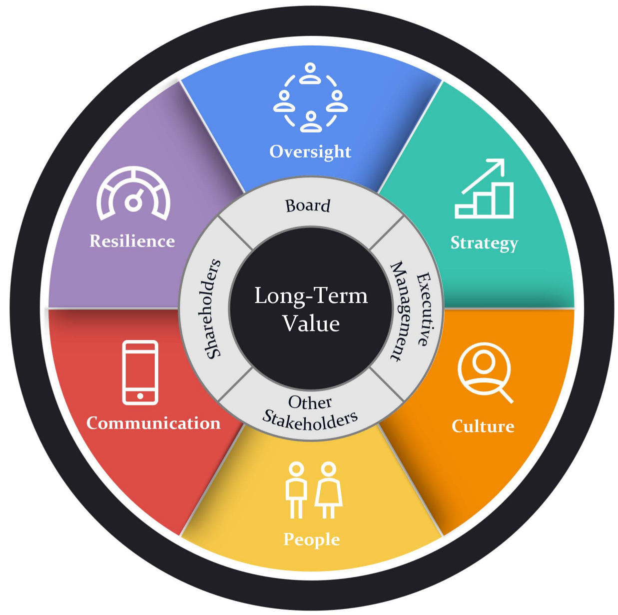
The CGF reimagines corporate governance as a dynamic and adaptable system rather than a checklist of policies and requirements. As entities grow more complex and interconnected, understanding the cross-functional linkages and stakeholder dynamics essential to effective governance becomes increasingly challenging. The CGF views governance as an interdependent system of checks and balances that enhances strategic and operational decision-making by considering both internal and external influences.

To this end, the CGF is built on core components that collectively drive the entity's corporate governance, recognizing the dynamic interplay among stakeholders and prioritizing alignment of these components across the entity. The objective of bolstering long-term value serves as the foundation, guiding leaders toward sound decision-making on strategy and risk, aligning organizational goals, and fostering a culture of integrity and accountability.

Corporate Governance Framework Visual

The CGF is illustrated as a circle, symbolizing effective governance's ongoing, iterative nature. Surrounding the center are six essential Components—Oversight, Strategy, Culture, People, Communication, and Resilience—each equally important and reinforcing one another in support of long-term value creation. At the heart of the CGF are four stakeholder groups: the board, executive management, shareholders, and other stakeholders. Each stakeholder shapes governance in a distinct way: the board and executive management are active participants, while others influence governance indirectly or periodically. Each of the four stakeholder groups is connected in some way to all six components. Anchoring the entire framework is Long-Term Value, positioned at the center to signify both the foundation and goal of governance. Together, these elements establish corporate governance as a dynamic, principles-driven process tailored to each entity's journey toward long-term value creation.

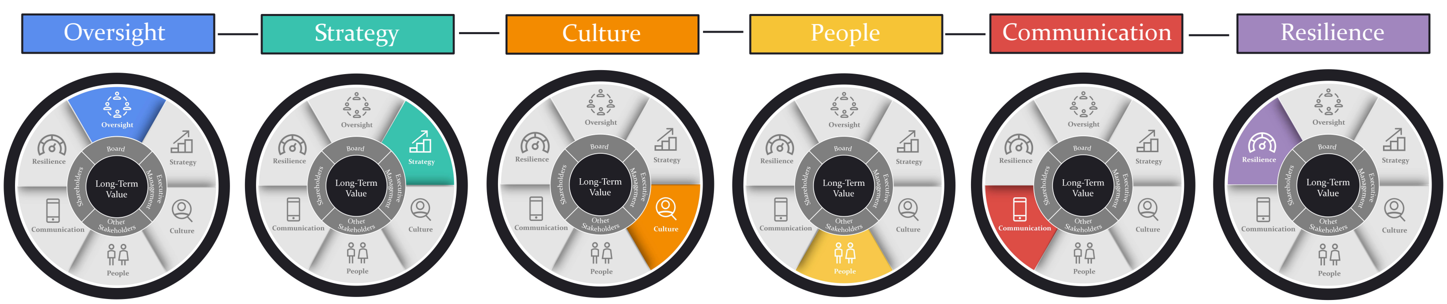
COSO's Corporate Governance Framework



The CGF's structure and style is consistent with the design of the other major COSO frameworks: the ICIF and ERM Framework.

Components

The CGF is organized around six core **Components** that represent the foundational elements of effective corporate governance: Oversight, Strategy, Culture, People, Communication, and Resilience.



These six Components are interconnected and equally important; this balance creates a holistic approach to corporate governance, enabling all Components to work together rather than in isolation.

While the Components provide broad coverage, the CGF does not attempt to address every specific or highly specialized governance topic. Instead, it highlights principles that support sound decision-making, accountability, and performance across diverse entities.

Principles

Across the six Components are 24 **Principles**, broad in scope, that form the foundation of effective corporate governance, articulating key objectives. Consistent with the other COSO frameworks, governance is considered effective when all Components and their related Principles are present, functioning, and operating together in an integrated manner. This principles-based approach reflects stakeholder expectations and leading practices without prescribing a one-size-fits-all approach.

Principle 1: Establish Board Structure and Exercise Oversight
Principle 2: Appoint Board Leadership and Members
Principle 3: Select CEO and Delegate Authority
Principle 4: Establish Executive Structure and Effectively Manage
Principle 5: Operate the Board Effectively
Principle 6: Uphold Shareholder Rights and Accountability

Principle 7: Define Purpose and Core Values
Principle 8: Develop and Communicate the Strategy
Principle 9: Execute the Strategy
Principle 10: Measure Performance Against Strategy and Adjust

Principle 11: Establish and Model Culture and Behaviors
Principle 12: Promote Ethics, Respect, and Open Communication
Principle 13: Assess and Adapt Culture

Principle 14: Deploy People Strategy and Succession Planning
Principle 15: Manage People and Compensation
Principle 16: Drive Performance and Development

Principle 17: Commit to Information Quality
Principle 18: Engage Stakeholders Strategically
Principle 19: Communicate Effectively with Internal Stakeholders
Principle 20: Communicate Effectively with External Stakeholders

Principle 21: Manage and Oversee Risks and Opportunities
Principle 22: Manage Compliance Responsibilities
Principle 23: Establish and Evaluate Internal Control
Principle 24: Monitor Governance Effectiveness

Points of Focus

Each Principle is supported by **Points of Focus** that expand on how entities may elect to work toward achieving the Principles. Points of Focus help leaders understand how to put the related Principle into action or to assess current-state effectiveness based on an entity's unique circumstances. While they are based on leading practices, they are not the only way to achieve the Principles. Note that some Points of Focus may relate to multiple Principles and Components within the CGF, and cross-references are provided, as applicable.

The Principles and Points of Focus that follow each Component in the CGF assert key aspects of leading practice for corporate governance. Leaders can use these as guideposts for assessing the quality of an entity's governance practices and can serve as an aspirational blueprint.

Other Framework Sections

The CGF includes two types of call-out boxes:

Deeper Insights

Used to expand upon Points of Focus, offering additional depth of understanding as relating to a leading practice

Leading-Edge Considerations

Used to highlight more advanced governance considerations that go above and beyond leading practice

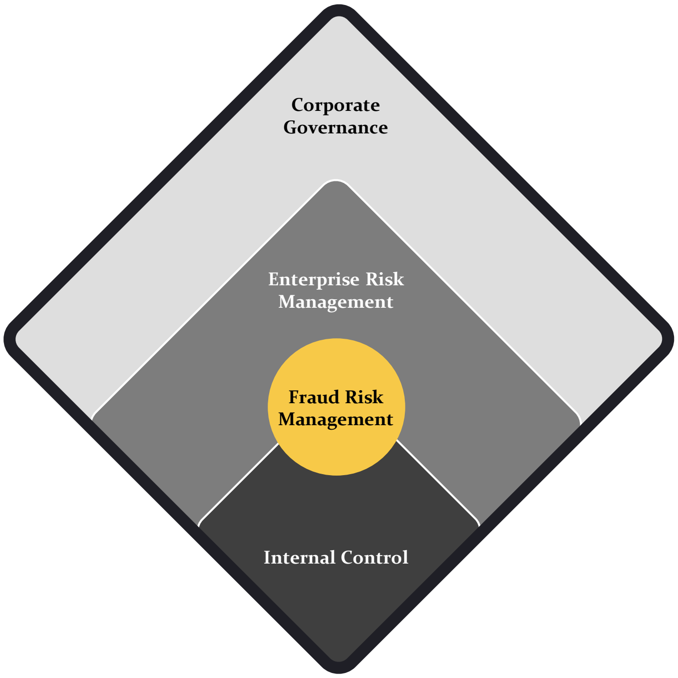
Note: The color of the Deeper Insights and Leading-Edge Considerations boxes varies by Component

These Deeper Insights and Leading-Edge Considerations are drawn from the governance experiences of the Advisory Council and PwC.

Relationship Among COSO's CGF, ICIF, and ERM Framework

The CGF not only encompasses elements of the prior two COSO frameworks but also provides a more in-depth perspective on key governance elements associated with these topics. In addition, COSO's *Fraud Risk Management Guide* offers entities implementation guidance for fraud risk management programs in alignment with COSO's ICIF. Fraud risk governance is an integral part of corporate governance and a critical oversight responsibility of the board and executive management.

The visual on the right represents the relationship among the three primary COSO frameworks and COSO's fraud guidance.



Governance as a concept is a broader topic area than internal control or ERM, and while the three frameworks overlap, each provides insights relevant to its specific subject matter.

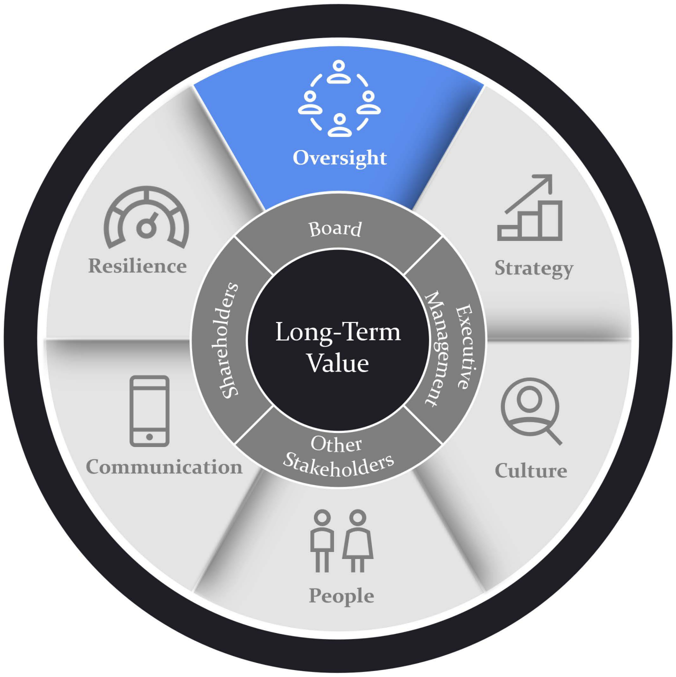
For example, the ICIF's Control Environment Component and the ERM's Governance and Culture Component both contain considerable discussion on the impact of strong governance at the entity level from a leadership and culture standpoint, providing a comparative perspective to the content within the CGF's Oversight and Culture Components. Though both frameworks elaborate on governance's impact on internal control and ERM, respectively, neither covers as broad a scope as the CGF.

COSO's ERM Framework dedicates a Component to Strategy and Objective-Setting, linking the discussion of risk with strategy and performance. The CGF's Strategy Component focuses on the development and enablement of strategy through leading governance practices—specifically, the responsibilities of executive management and the board.

Furthermore, the Information and Communication Component in the ICIF and the Information, Communication, and Reporting Component in the ERM Framework focus on communicating quality control and risk information. The CGF Communication Component focuses on the quality of information needed to enable better governance and strategic decision-making and the processes around communication that produce better governance around information.

Leaders looking to understand the practical application and detailed nuances of internal control and risk management should reference both the ICIF and the ERM Framework. Both publications can be read alongside the CGF for entities looking to understand the impacts of internal control and risk management from a governance perspective. Together, the COSO suite of frameworks and guidance—addressing corporate governance and the more specific areas of ERM, internal control, and fraud deterrence—work together to enhance entities' ability to create long-term value.

Oversight



Effective oversight is fundamental to strong corporate governance and long-term value creation. It begins with a board that serves as an informed, independent decision-making body responsible for overseeing strategy, executive leadership, and financial stewardship. While executive management handles day-to-day operations, the board retains ultimate accountability for the entity's performance and integrity.

Oversight responsibilities are shaped by legal and regulatory requirements, listing exchange standards, and the evolving expectations of shareholders and other key stakeholders. These external requirements establish a baseline, but leading entities go beyond compliance, adopting practices that enhance transparency, strengthen accountability, and support sound judgment.

Shareholders play a vital role in this system of checks and balances. Through director elections, votes on key matters, and shareholder proposals, shareholders help hold the board accountable, keep governance aligned with their interests, and support the board's ability to operate effectively on their behalf.

Principle 1
Establish Board Structure and Exercise Oversight

The board establishes a governance structure with well-defined roles, responsibilities, and committees and actively exercises oversight to support management in achieving the entity's strategy and business objectives while maintaining accountability to shareholders and other key stakeholders.

Points of Focus

1.1. The role of the board. While delegating day-to-day operations to executive management, the board is ultimately responsible for management of the entity on behalf of shareholders and for providing ongoing oversight, including having final decision-making authority over significant matters. Directors, in collaboration with executive management, help to develop, approve, and oversee the long-term strategy and actively engage in understanding the entity's financial performance and operations. The board exercises its oversight by constructively challenging executive management while providing support and advice. *For information on the board's role in strategy, refer to the Strategy Component and COSO's ERM Framework.*

Leading-Edge Considerations

Building a Healthy Board-Executive Management Dynamic

Although the board stays out of day-to-day operations, its degree of engagement largely depends on the entity's specific circumstances. Boards and executive management must be skilled in managing disruptions, working together to prepare and respond effectively. Regular informal meetings and open communication between board and executive management can enhance brainstorming and problem solving.

Trust is essential during challenging times, but behaviors around it can become strained, so it is vital for boards and executive management to consciously prioritize trust and for those behaviors to remain resilient. Directors are prepared to engage more deeply during a crisis or when facing a significant strategic shift or disruption. In such situations, the board may assume a more active role, and strong relationships with executive management can enhance the entity's ability to operate more effectively and efficiently. *For information on open communication between boards and executive management, refer to COSO's Enhancing Board Oversight: Avoiding Judgment Traps and Biases.*

1.2. Board oversight responsibilities. The board's oversight responsibilities are numerous and continually expanding, encompassing strategic initiatives, legal obligations, regulatory requirements, financial performance and reporting, major enterprise risks, contractual duties, equity and bondholder interests, and commitments to shareholders and other key stakeholders. To promote clarity, the board's core responsibilities and additional expectations are well defined and documented—whether in the entity's corporate governance guidelines, board/committee charters, or other relevant documentation—and approved by the full board. *See NACD's The Future of the American Board (published in January 2022 by NACD's Future of the American Board Commission) for additional information on objectivity and oversight, further highlighting core board responsibilities.*

1.3. Director responsibilities. The responsibilities of individual directors are largely determined by legal principles—specifically, the fiduciary duties of care and loyalty, including the obligation to act in good faith, as defined by state statutes and judicial precedents in equity law. Directors also operate under the protections of the business judgment rule, a doctrine that presumes that, in making informed and good-faith decisions, they act in the entity's best interests and consistent with their fiduciary duties of care and loyalty. Directors are also responsible for upholding high standards of ethics and integrity: they must handle confidential information with discretion, disclose and properly manage conflicts of interest, advance the entity's purpose, and adhere to its policies. These individual responsibilities and oversight expectations are clearly defined, documented—whether through a director role description or other relevant governance documentation—approved by the board, and acknowledged by each director. Additionally, boards regularly evaluate director performance to maintain accountability and effectiveness in fulfilling these responsibilities. *For information on individual director assessments, refer to the People Component.*

1.4 Director attributes and capabilities. Directors actively engage in thoughtful inquiry, demonstrating a capacity to challenge constructively and encourage robust discussion that enhances decision-making processes. They foster a culture of transparency, integrity, and accountability, consistently aligning their actions with the entity's core values and ethical standards. Directors exercise professional skepticism, maintaining an objective mindset that prompts them to question assumptions, evaluate evidence critically, and rigorously assess management's representations. They pose purposeful questions that uncover underlying issues, promote deeper understanding, and ultimately lead to more informed decisions. Directors commit to continuous learning, working to stay informed about emerging trends, risks, and opportunities, and apply this knowledge proactively to governance decisions. They also leverage their interpersonal skills and emotional intelligence to build trust, collaborate effectively, and communicate clearly with fellow board members, management, and stakeholders. *For information on leadership behaviors, refer to the Culture Component. For information on sound professional judgment in governance, refer to COSO's Enhancing Board Oversight: Avoiding Judgment Traps and Biases.*

1.5. Board committee structure, roles, and responsibilities. The board establishes an audit committee, a compensation committee, and a nominating/governance committee. These committees operate independently from management, enabling focused attention on specific governance areas before matters are presented to the full board for discussion. The committees' scope and allocation of responsibilities are clearly articulated in formal charters that define the scope and limits of each committee's decision-making authority and establish protocols for documenting deliberations and reporting decisions to the board. The board adds other committees as needed, including ad hoc or temporary committees, to address the expanding mandates of the board and these three primary committees. The entity's individual circumstances determine the nature, structure, and membership of additional committees.

Note: There is no one-size-fits-all as it relates to the committees and their responsibilities. Thus, the references here to committees' functions are not intended to preclude an entity from allocating these functions differently. Additionally, the scope and names for each of these committees continues to evolve.

Audit committee. The audit committee oversees the entity's financial reporting processes, internal control, and IA function, enabling IA's independence through a direct reporting line to the audit committee. The committee's core responsibilities include monitoring the integrity of financial statements, overseeing compliance with legal and regulatory requirements related to financial reporting, and assessing the effectiveness of internal control across financial, operational, and compliance areas. It engages with management and both internal and external auditors to approve significant accounting policies and audit plans, review findings, and to address risks, control deficiencies, and reporting issues. As part of its IA oversight, the committee also reviews and approves resource and budget plans, evaluates the function's performance, and confirms that identified issues are appropriately addressed. In addition, the board typically delegates oversight of risk management processes to the audit committee —unless there is a board-level risk committee —either way confirming that a robust, coherent structure exists for identifying and managing key risks. While financial reporting risks remain central to its remit, the audit committee may also be delegated oversight of specific non-financial risks, such as cybersecurity, environmental compliance, or health and safety, depending on the entity's risk governance structure. Broader or cross-cutting risks may be allocated to the full board or other committees, as appropriate. *For information on board allocation of risk, refer to the Resilience Component.*

Compensation committee. The compensation committee, acting on behalf of the board, develops and oversees executive compensation policies that align with the entity's strategic objectives and shareholder interests. The committee develops the entity's executive compensation philosophy, designs competitive chief executive officer (CEO) remuneration packages, approves CEO compensation based on performance evaluations and market benchmarks, and oversees compensation for other executive management, utilizing independent advisors as appropriate. It also establishes and monitors performance-based incentives, equity awards, and performance-based compensation structures intended to foster robust financial performance without incentivizing unethical or excessive risk-taking behaviors. Additionally, the committee often reviews succession planning, assesses the effectiveness of compensation policies, and confirms compliance with regulatory requirements and shareholder expectations, including disclosure obligations in the proxy statement. *For information on director and executive compensation, refer to the People Component.*

Leading-Edge Considerations

Expanding the Role of the Compensation Committee

Some compensation committees look beyond executive compensation to focus on the strategies, policies, and programs that support workforce attraction, retention, development, compensation, and well-being. Thus, some boards delegate responsibility to this committee for the oversight of culture, diversity, safety, employee development, and other applicable workforce-related topics. Adding to or restructuring the compensation committee to include talent and/or culture reflects a broader recognition of the strategic role that talent plays in organizational success. This underscores the committee's expanded focus beyond executive compensation to encompass a holistic view of its workforce management oversight responsibilities. By integrating traditional HR considerations such as talent development, representation, and employee engagement, the committee aims to align talent strategies with broader organizational goals. This restructuring also signals a commitment to a more comprehensive governance approach, confirming that the entity's compensation policies are not only competitive but supportive of the culture and long-term objectives. *For information on board oversight of people strategy, refer to the People Component.*

Nominating/governance committee. The nominating/governance committee shapes the entity's corporate governance guidelines and promotes an engaged and strategically aligned board. This committee identifies, evaluates, and recruits potential board candidates—considering their qualifications, experience, and independence—and oversees the composition of the board and its committees, board succession planning, and the process for evaluating board performance. On a continual basis, the committee reviews the board's overall committee structure, including the scope of each committee's responsibilities, and confirms that each committee's charter reflects those respective responsibilities. The committee also regularly considers whether the board's overall committee structure is properly positioned to enable optimal oversight of the entity's strategy and associated risks and opportunities, along with overseeing committee assignments and rotation of assignments. Additionally, the committee monitors changes to and trends in shareholder voting and governance policies and evaluates whether modifications to the board's corporate governance guidelines would be beneficial, recommending those to the full board for approval. *For information on board assessments, succession planning, onboarding, and development, refer to the People Component.*

Deeper Insights

Additional Board Committees

In certain instances, the board may opt to create additional assignments, task forces, or committees to address specific issues requiring focused oversight. Examples include:

- An **executive committee** to act on behalf of the board for urgent matters or managing crises, as well as to oversee strategic planning or evaluate executive performance
- A **technology committee** to monitor IT capabilities and cybersecurity risks
- A **risk committee** to oversee the entity's risk management program (not including financial reporting, which remains under the audit committee's purview), confirming robust processes for identifying, assessing, and mitigating key risks that could impact the entity if not addressed
- A **compliance and ethics committee** to oversee the entity's compliance and ethics program and confirm alignment with applicable legal and regulatory standards
- A **finance committee** to oversee the entity's capital structure, including debt instruments and equity offerings

Boards may also establish special-purpose committees or sub-committees for specific needs, such as selecting a new CEO, approving time-sensitive actions, or complying with heightened independence requirements in strategic transactions. The decision to form additional committees depends on several factors, including listing exchange and regulatory requirements, the sector in which the entity operates, director competencies, and the entity's specific circumstances.

Whether responsibilities are delegated to a committee or retained by the full board involves evaluating the issue's complexity, frequency, and need for specialized expertise. Material risks or significant strategic priorities often warrant dedicated committee oversight, while the full board may address topics that are cross-cutting or critical to the entity's overall strategy. Committees are established when focused expertise, independence, or concentrated attention enhances oversight without reducing overall board involvement on key matters.

1.6. Committee governance and reporting. Each committee operates under a documented charter that specifies its authorities and responsibilities, as well as the committee's structure, processes, membership qualifications, and meeting requirements such as frequency, attendance, meeting materials, meeting minutes, and any routine reports that the committee reviews for discussion and/or for the board. The board appoints a chair for each of its committees with the requisite experience and independence. Committee chairs encourage their members to operate with transparency and rigor, promoting clear and open communication with the full board and management, while adhering to leading practices and confirming compliance with applicable legal and regulatory requirements. Committee chairs also facilitate periodic committee assessments to enhance effectiveness and continuously improve governance practices. The board, when possible, assigns members to serve on multiple committees, with each member also serving on at least one other committee, to promote cohesion and collaboration within the committee structure, and with periodic rotation. The committee—usually through the committee chair—establishes regular reporting to the board, inclusive of committee decisions and any recommendations that require board approval. *For information on board assessments, refer to the People Component.*

Principle 2
Appoint Board Leadership and Members

The board appoints competent board leadership and diverse members who collectively possess the skills and experience needed to enable performance, foster accountability, and operate with integrity, independence, and objectivity.

Points of Focus

2.1. Independent board leadership. The board has a leader to provide direction and guide the board's work, which can take the form of an independent board chair or a lead independent director, or equivalent, enabling effective corporate governance, decision-making, and strategic oversight. The independent board leader has influence over the agenda, facilitates board meetings, acts as a liaison between the board and executive management, and plays a crucial role in conflict resolution and board and CEO succession planning.

> *"Appointing a board leader who is not a member of management and empowering that leader to influence the board agenda and information flow and to engage with shareholders and other stakeholders helps position the board to provide objective oversight and to act with agility."*

Source: NACD, *2023 NACD Blue Ribbon Commission Report*, September 2023.

Deeper Insights

The Critical Role of Independent Board Leadership

An independent board leader enhances the confidence of shareholders and other stakeholders, reflecting that their interests are effectively represented and safeguarded. Having an independent leader allows directors to voice issues and concerns for board deliberation without immediately involving management. Entities addressing board leadership in their annual proxy statement or other periodic reporting channels can use this disclosure to describe the role their independent board leader plays in board effectiveness.

2.2. Board leadership attributes and responsibilities. Board leaders, including committee chairs, are competent and experienced, fostering an environment of inclusion, open discussion, and debate. They regularly communicate with board members, executive management, and external parties such as external auditors and compensation advisors. They work with the corporate secretary and executive management to set meeting agendas, including the annual shareholder meeting, and provide input into meeting briefing materials. Board leaders guide discussions, facilitate productive deliberations, solicit dissenting views, build consensus, and encourage input from a wide range of voices. They are also capable of delivering difficult or unpopular messages when necessary and are open to feedback on their leadership. *For information on board culture, refer to the Culture Component.*

Leading-Edge Considerations

Board Leadership's Relationship with the CEO

A strong, collaborative relationship between independent board leadership and the CEO is essential for effective corporate governance, as it fosters strategic alignment, enhances decision-making, and strengthens board-management dynamics. This relationship is built on mutual trust, open communication, and defined roles to balance oversight with support. A well-functioning partnership allows the independent board leader to serve as a strategic advisor and sounding board for the CEO while maintaining the independence needed for robust oversight. Regular and candid discussions between the two can help anticipate challenges, align priorities, and make sure the board remains well-informed without overstepping into management functions. As corporate governance evolves, entities are increasingly recognizing that structured yet flexible engagement between independent board leadership and the CEO—through scheduled check-ins, informal dialogues, and shared commitment to governance excellence—can lead to a more resilient, adaptive, and high-performing board.

2.3. Board independence. A supermajority of the board is independent and free from material relationships with the entity. The board, guided by legal counsel, establishes independence standards and the processes employed to evaluate director independence, considering legal and regulatory requirements, the perspectives of shareholders, and other factors including tenure, interpersonal relationships, and non-public affiliations. The board meets its responsibility to manage conflicts of interest to maintain board independence and prevent biased decision-making. The entity has developed and maintains a conflict-of-interest policy that promotes disclosure-based transparency for shareholders, regulators, and other key stakeholders. The board actively oversees and resolves conflicts to protect the entity's integrity and maintain stakeholder trust.

Deeper Insights

Director Independence Considerations

Although non-independent executive directors, such as the CEO, bring valuable insights on daily operations and strategic challenges, having a supermajority of independent directors is a leading practice that promotes robust, objective oversight and is aligned with shareholder preferences. Note that external sources define director independence differently. Federal and state standards and listing exchange (NYSE and Nasdaq) rules apply when identifying board candidates and determining on which committees they may serve. Though both exchanges require boards to have a majority of independent directors, each has unique criteria. Controlled public entities can elect to be exempt from having a majority of independent directors, but they must disclose their status and the basis for the election in their annual proxy statement or in their annual report. Legal counsel as well as outside directors should remain alert to the changing landscape of director independence, as changes in director activities and relationships, amendments to rules and regulations, and court decisions can impact director independence definitions and determinations.

2.4. Board competencies, skills, experience, and cognitive diversity. Board composition reflects a range of experience and expertise aligned with the key opportunities and risks derived from the entity's strategy. The board regularly reviews its composition, with input from management, to identify the competencies, skills, and experience necessary to stay current, as well as potential gaps. This begins with a dynamic and multi-year skills matrix to help the board evaluate both individual and collective capabilities against the entity's long-term strategy and needs. Boards also consider directors with a wide range of backgrounds and demographics to promote cognitive diversity and enhance their ability to consider the perspectives and needs of a diverse set of stakeholders.

Board committees are composed of board members with the relevant and requisite competencies, independence, and objectivity. Committee membership requirements vary depending on the type of entity, sector, jurisdiction, and specific regulations governing the entity. For example, listing exchanges require all U.S. public entity audit committee members to be financially literate, and at least one member must be a qualified "audit committee financial expert" as per requirements in the Sarbanes-Oxley Act of 2002[1] (SOX).

Leading-Edge Considerations

Robust Disclosure of Director Qualifications

As shareholders increasingly seek transparency and disclosure regarding board composition, it is essential that boards include this information in their proxy statements. Individual competencies and expertise are prominently detailed in director biographies and the board's skills matrix, with a focus on competencies that are specific to the entity and strategy over general business experience. Depending on the nature of the entity and its products or services, the board may need specific regulatory, financial, industry, technology, or legal expertise, and the board's disclosures reflect attention to this need.

2.5. Director commitments. The board establishes and discloses a policy to prevent director overcommitment, including setting clear limits on the number of board roles that directors and executives may hold concurrently. On an annual basis, the board evaluates each director's professional, personal, and board-related commitments to confirm sufficient capacity to fulfill their governance responsibilities effectively. The evaluation considers each role's specific time demands and incorporates shareholder perspectives regarding the risks posed by overcommitted directors.

Leading-Edge Considerations

Overboarding

Director commitment policies prevent "overboarding" by limiting the number of boards on which a director is permitted to simultaneously serve, to make sure they have sufficient time and focus to effectively fulfill their governance responsibilities. Some entities restrict directors to a maximum of four fiduciary boards and sitting CEOs and other top executives to no more than two, including their own, recognizing the demands of their primary roles.

[1] SOX is a U.S. federal law that mandates strict financial reporting and internal control requirements for public companies to protect investors from corporate fraud. It was enacted in response to major accounting scandals and aims to improve transparency and accountability in corporate governance.

2.6. Director recruitment and selection. Supported by the nominating/governance committee or another independent committee responsible for director nominations, the board establishes clear criteria for director recruitment, aligned with the entity's strategic needs and requirements and identified gaps in director expertise. The board maintains a pipeline of qualified candidates or potential successors, sourcing them through various channels such as professional networks, executive search firms, and shareholder recommendations, and cultivates relationships with prospective candidates to assess their cultural fit. The board's nominating/governance committee members evaluate director candidates (including any submitted by shareholders) and submit the best candidates, to be elected by shareholders. *For information on board succession planning, refer to the People Component.*

2.7. Director tenure. To maintain a diversity of tenures, the board seeks to balance short, medium, and longer tenures, in part by addressing the issue of board turnover. While periodically considering the implementation of director term limits and/or mandatory retirement ages, the board does not rely on these mechanisms alone, instead setting clear expectations and emphasizing that director roles are not permanent. Board leadership fosters a culture in which directors consider their renomination as something to be earned—and works to eliminate any stigma associated with the decision to off-board a director or with an individual stepping away from a leadership role.

Leading-Edge Considerations

Maximum Lengths of Service for Board and Committee Leadership

Even if a board decides not to implement term limits or mandatory retirement ages for all of its directors, it should consider setting maximum lengths of service for board and committee leadership positions. Establishing defined terms for leadership roles—such as board and committee chairs—helps promote fresh perspectives, broaden participation among qualified directors, and support independent oversight. Regular rotation of leadership roles can prevent the consolidation of influence and encourage the development of future leaders.

Principle 3
Select CEO and Delegate Authority

The board selects the CEO and delegates authority to the CEO and executive management to execute the strategy and manage operations, allowing for effective and efficient decision-making and accountability.

Points of Focus

3.1. CEO selection. In selecting a CEO, the board understands and agrees on the factors that are most likely to impact the business in the foreseeable future and identifies the leadership skills and capabilities needed to navigate those challenges and opportunities. The board considers the combination of skills, experience, essential qualities, and culture fit that will best support the entity's long-term viability and growth; board leaders often form or designate a committee to lead the selection, hiring, and negotiation process. The board maintains a short list of internal and external CEO candidates to determine the best fit for the role at the time of selection or in an emergency succession circumstance. The board seeks perspectives from multiple parties—perhaps including the current and previous CEO, other key executives, or directors—to gain insights into the demands of the role and the skills and capabilities of the current executive management team. The board may engage an executive search firm to identify external candidates and conduct due diligence. High-performing internal candidates are considered due to their skills, experience, familiarity with the entity, established relationships, and demonstrated leadership abilities. The board remains objective and adaptable, ready to consider new candidates if the strategic direction or business conditions change. *For information on CEO succession, refer to the People Component.*

3.2. Board delegations to the CEO and executive management. Although the board is legally responsible for management of the entity, it typically delegates significant authority to the CEO and other members of executive management. The relationship is collaborative, with directors guiding and supporting executive management while holding them accountable for achieving strategic goals and driving organizational success. The board defines and formalizes matters reserved for the board versus those to be delegated, specifying the authorities, decisions, and monetary thresholds assigned to the CEO and other members of executive management. Delegations could include transactions such as operating obligations, capital expenditures, or mergers and acquisitions that are within specified spending authority limits. These delegations are documented through a delegation-of-authority policy that the board regularly reviews and approves to determine whether changes to the entity's strategy or operating environment necessitate revisions to the delegations.

3.3. CEO and executive management delegations. The decision-making powers for each executive role are clearly defined, indicating which decisions can be made independently and which require collaboration, escalation, or board approval. The delegation-of-authority policy includes monetary limits and decision thresholds (often referred to as an approval matrix) as well as guidance on when and how authority may be delegated. The board reviews and approves the policy to confirm the delegations are clear, appropriate, and consistently applied across the entity, aligning on what roles have been given what authority and when issues should be escalated to the board. The policy is also clear on what delegations may be extended to professional service providers and the protocol for selecting and relying on their advice. This policy is regularly reviewed and updated, especially around changes in leadership, significant events such as acquisitions, or shifts in executive management capabilities.

Principle 4
Establish Executive Structure and Effectively Manage

Executive management, with board oversight, establishes a governance structure with defined roles, responsibilities, and committees to effectively develop and execute the strategy, manage risks, and uphold the entity's integrity.

Points of Focus

4.1. The roles and responsibilities of executive management. Executive management develops the strategy in collaboration with the board, executes the strategy, manages risks and opportunities, promotes integrity, and upholds legal and ethical behavior. Each executive role has clearly defined responsibilities, documented in job descriptions that outline key duties, required qualifications, and performance expectations. These responsibilities are aligned with the entity's strategic objectives, and each executive understands how their role contributes to overall performance. Mechanisms are established to identify and address any overlaps, gaps, or ambiguities in executive roles, creating clarity in accountability and minimizing operational disruptions. Executive roles and responsibilities are reviewed periodically and adjusted as needed to reflect changes in strategy, organizational growth, or succession planning. *For information on executive succession planning, refer to the People Component.*

Deeper Insights

Essential Executive Roles in Corporate Governance

The specific executive management roles involved in corporate governance may vary depending on an entity's size, structure, industry, and maturity, but there are several key positions—beyond the CEO—that are commonly essential to governance and critical to the board's oversight responsibilities. These often include the corporate secretary, chief legal officer, general counsel, or equivalent; executives responsible for assurance functions such as the chief audit executive (CAE), chief risk officer (CRO), and chief compliance officer (CCO); and the chief financial officer (CFO), chief accounting officer (CAO), chief operating officer (COO), chief information security officer (CISO), and the chief human resources officer (CHRO), or equivalents. The board may even delegate certain matters to these roles to drive the right expertise and involvement in key or material matters and to set up appropriate segregation of duties. These roles are crafted with specific authority—and, in some cases, independence—to provide unbiased information that helps the board make strategic decisions aligned with legal, financial, and ethical standards, while supporting the entity's core values, integrity, and accountability.

4.2. Executive management attributes and capabilities. Under the board's guidance, the CEO assembles an executive management team with the skills and experience necessary to effectively and ethically execute the strategy. These executives combine technical expertise with strong leadership abilities, motivating their teams and collaborating with colleagues to drive the strategy forward. Their ability to execute the strategy, identify and manage risks, make informed decisions, and adapt to change is vital for sustaining the entity's progress and long-term success. The entity establishes a performance management process to regularly evaluate and assess these executives. *For information on executive development, performance management, and succession planning, refer to the People Component.*

Deeper Insights

Executive Management's Interactions with the Board

To build trust and foster effective governance, executive management engages with the board in ways that are distinct from interactions with peers or internal teams. Successful engagement requires a refined set of capabilities that go beyond subject-matter expertise. Executives demonstrate strategic communication, tailoring insights to board-level priorities through concise summaries, visuals, and context that provoke meaningful dialogue. Equally important is boardroom awareness and emotional intelligence—the ability to read the room, navigate interpersonal dynamics, and adjust communication in real time. Executives with a cross-functional perspective add value by connecting the dots across the entity and aligning their messaging with broader strategic goals. Effective engagement also demands strong preparation and foresight, including anticipating board questions, understanding where pushback may arise, and clearly articulating the purpose of each interaction. Finally, follow-through and accountability are essential: tracking commitments, delivering timely updates, and maintaining open lines of communication with board and committee leaders build the credibility needed for sustained, high-impact board relationships. *For information on communication and reporting to the board, refer to the Communication Component.*

4.3. Management committees. Executive management establishes and maintains management-level committees that align with the entity's strategic priorities and operating model. These committees support cross-functional collaboration, decision-making, monitoring, and escalation for critical business areas such as finance, operations, and risk. Where appropriate, executive management may form industry-specific committees to address emerging risks or specialized oversight needs. Committees operate under formal charters that define roles, responsibilities, authority, and membership, with adequate executive representation to enable informed and timely contributions. Executive management establishes and maintains structured communication, reporting, and escalation mechanisms to promote integration and information flow between management committees, executive management, and the board. The committee structure is periodically reviewed and updated to reflect changes in strategic priorities or external conditions. *For information on escalation and reporting, refer to the Communication Component.*

Principle 5
Operate the Board Effectively

The board, in collaboration with the corporate secretary, develops and periodically revisits governance processes to optimize board operations and strengthen board engagement, enabling effective governance and oversight.

Points of Focus

5.1. Board work plan and meeting agendas. In collaboration with the corporate secretary, the board establishes and regularly updates its annual work plan or calendar and meeting agendas. The annual plan sets expectations for director time commitments, serves as a framework for committee meetings, and allocates sufficient time for strategy and risk. Agendas are driven by the board's defined roles and responsibilities, regulatory requirements, and corporate governance guidelines, with board leaders reserving adequate time for strategic discussion. Annual work plans incorporate deep dives into priority topics, director education, and time for board assessments. The board also reflects on past risks, challenges, and performance gaps to adjust time allocation and strengthen oversight where needed. Annual planning aligns with external reporting cycles and stakeholder engagement to support timely and informed decision-making.

5.2. Executive sessions. The board and its committees reserve certain discussions and decisions (e.g., CEO performance and compensation, succession planning, board performance, significant legal or compliance matters, or discussions with the external and internal auditor) for themselves via regular executive sessions. Board and committee agendas routinely designate time for these sessions, before and/or after each board or committee meeting. Executive sessions convened toward the end of scheduled board/committee meetings with select members of management, as well as with no management present, provide an environment for board members to openly discuss sensitive issues, reflect on decisions made during the meeting, and address any unresolved matters through the chair/lead independent director. This private setting also allows for candid evaluations of leadership and strategic planning without external pressures.

Deeper Insights

Executive Sessions to Focus Board Agendas

Conducting executive sessions with the CEO at the outset of board meetings can help focus the discussion on the most relevant agenda items, allowing the CEO and board to adjust the agenda based on discussions held in the executive session.

5.3. Board minutes. The board and its committees appropriately document and maintain records of each board and committee meeting, including executive sessions and virtual meetings, and fully executed forms of director consent for any actions taken by unanimous written consent in lieu of meetings. A corporate secretary, often the entity's general counsel, is designated to maintain and keep the entity's records and board meeting minutes. Minutes aim to capture key discussions, the rationale behind decisions, and the board's oversight of risks and compliance, reinforcing that those directors exercised due care and diligence. Timely preparation, formal review, and approval help confirm completeness and accuracy, while secure retention safeguards confidentiality and preserves the integrity of board records.

5.4. Access to management. Directors have access to management beyond the CEO, in both formal and informal settings. Informal one-on-one discussions offer directors an opportunity to address specific concerns, gain deeper understanding, and foster candid communication. They avail themselves of this access to familiarize themselves with operations, tour facilities, and better assess the capabilities and performance of key executives. Directors keep the CEO informed of these interactions, helping the CEO stay aware of ongoing conversations with other members of management and understand the context in which they are taking place.

Deeper Insights

Key Governance Documents Supporting Corporate Oversight

The following are common corporate governance documents or disclosures that support corporate oversight. This is not an exhaustive list, and specific requirements may vary based on regulatory frameworks, corporate policies, and industry standards.

- **Articles of incorporation.** Establishes the corporation's legal existence, structure, and purpose
- **Bylaws.** Defines the corporation's internal governance rules, including board structure, meeting procedures, and officer roles
- **Corporate governance guidelines.** Outlines governance principles, board responsibilities, and ethical expectations
- **Board and committee charters.** Specifies the roles, composition, and authority of the board and its committees
- **Delegation-of-authority policy and matrix.** Clarifies decision-making authority across the entity
- **Proxy statement.** Provides governance disclosures, executive compensation details, and shareholder voting matters
- **Stakeholder engagement model.** Details how the entity engages with shareholders, regulators, and other key stakeholders
- **Conflict-of-interest policy.** Defines procedures for identifying, disclosing, and managing conflicts that could compromise director independence

Principle 6
Uphold Shareholder Rights and Accountability

The board and executive management uphold shareholder rights through clear, transparent disclosures, and actively facilitate meaningful dialogue to enable shareholders to make informed decisions while holding directors accountable for their fiduciary duties.

Points of Focus

6.1. Shareholder rights. The entity recognizes and upholds the rights of shareholders through transparency and accessibility. Executive management provides clear and comprehensive disclosure of shareholder rights in its governance documents, annual reports, and proxy statements, with special attention on variable rights, such as proxy access, director nominations, the ability to call a special meeting, and voting rights among share classes. The board evaluates variable shareholder rights, considering market norms and shareholder expectations, and clearly communicates its decisions—especially when deviating from common practices—to explain how such choices align with the entity's and shareholders' best interests. The board confirms that these disclosures are accessible and written in plain language to facilitate understanding so that shareholders feel empowered to participate actively in corporate governance. Any actions that may impact shareholder value are undertaken with due consideration of their rights and interests, promoting long-term growth and corporate accountability.

Deeper Insights

Evolving Shareholder Rights Expectations

Although minimum shareholder rights are embedded in federal and state laws and regulations, as well as the rules of listing exchanges, the landscape of shareholder expectations often extends beyond these foundational requirements. Shareholders frequently seek enhanced rights through market-driven mechanisms such as litigation and shareholder proposals. These mechanisms have become significant avenues for shareholders to voice their expectations on various topics, including proxy access, director nominations, and voting rights. The evolving nature of these expectations reflects a broader trend toward more aggressive shareholder activism, with investors advocating for greater transparency, accountability, and influence over corporate governance practices. As a result, entities increasingly recognize the importance of proactively engaging with shareholders to address these heightened expectations, fostering a more collaborative and responsive governance environment.

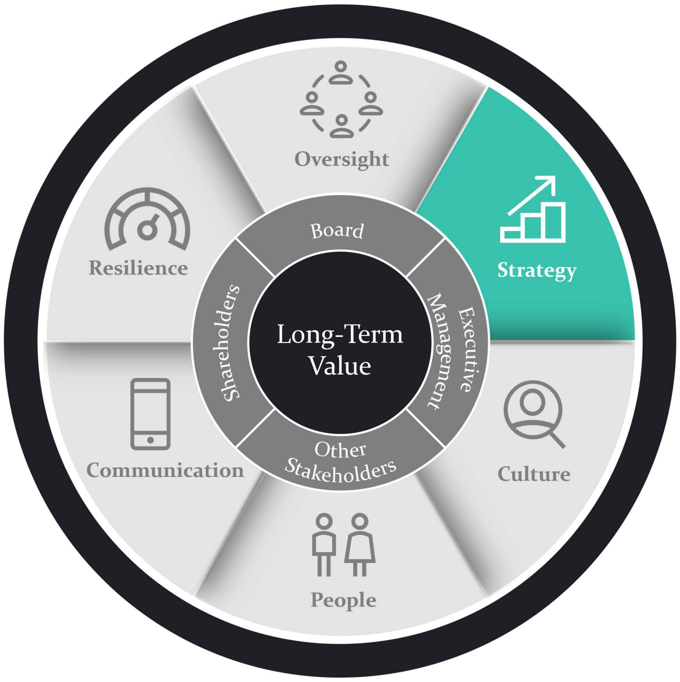
6.2. Informed shareholder voting. The entity keeps its shareholder base engaged and informed by giving owners timely information to exercise their voting rights. This includes providing shareholders with comprehensive information about governance practices, director candidates, executive compensation, the external auditor, and any other matters on the voting ballot. Proxy materials are made available to shareholders well in advance, allowing voters sufficient time to review resolutions and proposals, assess performance metrics, and consider potential impacts. To further support informed voting, the entity facilitates ongoing dialogue between shareholders, the board, and executive management. By taking these steps, the entity enables shareholders to make informed decisions and exercise their voting rights to express their preferences and hold directors accountable.

6.3. Shareholder director nominations and election. Shareholders can nominate directors either by suggesting names to the board or by availing themselves of direct access to the proxy statement. When a shareholder makes a nomination to the board, the board's nominating/governance committee will assess the candidate and either place that name on the proxy statement or decline the nomination, with a clear explanation of its decision. Although not required, shareholders have established a strong preference for directors to be elected by majority vote through their use of, and voting on, shareholder proposals. Majority voting in director elections at U.S. public companies is understood to be when a director must receive more votes for than against to be elected or re-elected. This can be achieved through a pure majority voting standard, in which a director who fails to receive a majority of votes is not elected, or a policy in which directors not receiving a majority must resign and the board has discretion to accept or reject it.

6.4. Shareholder stewardship. The entity actively facilitates ongoing, transparent dialogue to allow shareholders to effectively engage and share their perspectives on key governance matters with the board and executive management, when they want to. The board provides structured opportunities for shareholder input, including direct engagement on topics such as entity performance and executive compensation—both with and without management present. The entity does not impose undue burden on shareholders advocating for governance reforms, using appropriate legal and regulatory channels. *For information on shareholder engagement and communication, refer to the Communication Component.*

6.5. Diverse shareholder perspectives and investment timelines. Entities often have a wide spectrum of shareholders (active, passive, activist, institutional), each with different investment objectives, obligations, and regulatory constraints. To effectively engage with shareholders, entities map out their shareholder universe to understand shareholders' diverse perspectives and investment timelines. Entities use this information to make corporate governance decisions, acknowledging that they cannot satisfy all shareholders and investment objectives. They develop targeted communication strategies tailored to different shareholder groups' expectations and priorities. They facilitate dialogue through shareholder forums and meetings to receive their feedback. Entities maintain a system to document and respond to shareholder feedback to further refine strategies and enhance support for governance decisions. Entities also recognize that shareholders' investment objectives shape their perspectives on the impact of other stakeholders, whose engagement and trust are essential to sustained performance and strategic success. *For information on stakeholder engagement and communication, refer to the Communication Component.*

Strategy



Corporate governance is a critical enabler of strategy, providing the structure and discipline an entity needs to develop, execute, and oversee strategic goals and objectives. Effective governance clarifies the alignment between strategy and the entity's purpose, core values, and short- and long-term goals. It supports strategic feasibility and focus by guiding resource allocation, monitoring performance, and promoting adaptability in changing environments.

The board plays an essential role in shaping and overseeing the entity's strategy. It works closely with executive management to review and approve the strategy and resulting strategic plans, challenge assumptions, and drive accountability for execution. This oversight is continuous and embedded in board activities.

Executive management is responsible for formulating and implementing the strategy. Management connects strategic goals and objectives to day-to-day operations, sets clear expectations, and monitors performance to confirm the workforce is aligned and focused on delivering long-term value.

Principle 7
Define Purpose and Core Values

The board and executive management clearly define and communicate the entity's purpose and core values, and management embeds them into the strategy and operations to guide decisions and promote long-term viability.

Leading with Purpose

"The company's purpose, as defined by the problems addressed and the needs filled by its goods and/or services, should drive its behavior, shape its governance, and position the company to create sustainable long-term value."

Source: NACD, *NACD's The Future of the American Board: A Framework for Governing into the Future,* October 2022.

7.1. Purpose as the foundation for strategy. The board and executive management define a clear, enduring purpose that shapes the entity's identity and short- and long-term success, serving as the foundation for major decisions and strategic priorities. The purpose informs the entity's core values and culture, remaining consistent and relevant despite market and societal changes. Once approved by the board, it is embedded into decision-making, communicated clearly across all levels, and integrated into performance metrics to drive accountability. Employees understand how their roles contribute to fulfilling the entity's purpose, which guides innovation, risk-taking, and leadership actions. Purpose is also communicated externally to act as an anchor for the entity's strategy.

What Is Purpose?

An entity's purpose is its fundamental reason for being, guiding strategy, decision-making, and culture. In COSO's ICIF and ERM Framework, purpose sets the foundation for aligning objectives, managing risk, and fostering an ethical, values-driven environment.

Deeper Insights

The Power of Purpose

A clear purpose acts as a north star and helps attract, engage, and motivate employees, customers, and other stakeholders. It's the why behind what the entity does. When an entity's purpose aligns with core values, it fuels greater connection between an entity and its people. Strong employee engagement can be the catalyst to unlock creativity and inspire innovation, critical to the development of new products, services, or business models that support the entity's goals. For customers, a clear purpose fosters trust and loyalty, just as it helps employees feel more connected to an entity that aligns with their values. This connection can encourage greater loyalty and advocacy, as consumers tend to prefer brands that share their values and contribute positively to society. However, if an entity's actions diverge from its stated purpose, there is a risk of damaging loyalty among its stakeholders. Ultimately, a clear purpose that resonates with stakeholder values can be a powerful tool for building trust and driving long-term value creation.

7.2. Aligning core values to purpose. The board and executive management define the entity's core values to align with its purpose, guiding decision-making and shaping behaviors at all levels. The entity embeds its core values into key processes, including recruitment, learning and development, performance management, and stakeholder interactions, reinforcing that they extend beyond statements and actively influence strategy, culture, and operations. The entity's performance management process rewards behaviors that reflect these core values and identifies and addresses behaviors that are in conflict. Executive management uses regular assessments, such as employee engagement surveys, to evaluate how well the entity is living its purpose and core values, allowing for adjustments to remain aligned with the strategy and business objectives. These values serve as a moral compass, helping employees navigate ethical dilemmas, resolve conflicts, and uphold the entity's reputation, ultimately fostering a culture of integrity, adaptability, and trust. *For information on the role of purpose and core values in shaping culture, refer to the Culture Component.*

What Are Core Values?

Core values represent an entity's ethical and cultural foundation, shaping behavior, decision-making, and risk awareness at all levels. In both COSO's ICIF and ERM Framework, core values are essential for setting the tone at the top, guiding ethical conduct, and aligning risk, control, and performance with the organization's purpose.

Principle 8
Develop and Communicate the Strategy

Executive management, with board input, leads the development and communication of the entity's strategy, aligning it with the entity's purpose and long-term value creation.

Points of Focus

8.1. Understanding competitive value. Before developing a strategy, the board and executive management gain a clear understanding of the key sources of the entity's value, how it is created, and what threatens it. This includes a thorough assessment of the entity's core strengths, competitive advantages, and market positioning. The board and executive management evaluate key sources of value: financial performance, operational capabilities and efficiencies, intellectual property, brand equity, customer relationships, and talent. They also identify internal and external risks—such as market disruptions, regulatory changes, technological advancements, or competitive pressures—that could erode this value. Once the value landscape is clear, executive management determines how to leverage, protect, and expand this value in ways that align with long-term strategic goals. All strategic decisions tie back to value creation, confirming alignment with shareholder expectations and broader stakeholder interests.

Leading-Edge Considerations

Balancing Long-Term Value Creation with Short-Term Pressures

Entities often face difficult decisions that require balancing short-term pressures with long-term value creation. In activist shareholder scenarios, for example, boards and executive management evaluate whether responding to immediate demands—such as cost-cutting, asset divestitures, or leadership changes—aligns with the entity's strategic vision or risks undermining sustainable growth. While the board's primary responsibility is to promote the entity's long-term success, this is fundamentally defined by the creation of sustainable value that benefits shareholders over time. Maximizing long-term shareholder wealth and creating broader value are not mutually exclusive—rather, they are closely aligned objectives. Effective corporate governance resists short-term demands or interests that may conflict with these long-term goals. At times, compromise or tactical shifts may be necessary to maintain shareholder confidence, avoid prolonged distractions, or prevent more disruptive interventions. This may involve working with executive management to adjust capital allocation, revisit operational priorities, or modify governance structures to address concerns while preserving the entity's strategic direction. The board and executive management critically assess trade-offs, distinguishing between actions that build long-term resilience and those that provide only temporary relief. Navigating these tough calls requires independent judgment, stakeholder engagement, and disciplined decision-making, with a consistent focus on the entity's enduring success and shareholder value.

8.2. Strategic planning. Executive management, led by the CEO, develops the strategy and resulting strategic plan, with meaningful board input and guidance. Executive management establishes a formal and iterative strategic planning process that clearly defines roles and responsibilities of management and the board. The process considers the competition, the entity's unique competitive advantages, key risks and opportunities, unmet customer needs, and stakeholder perspectives, and includes scenario analyses to test the potential impact of different strategic options. As part of this process, management defines strategic goals and objectives that guide decision-making, resource allocation, and performance measurement across the entity. Management also integrates risk management into the strategic planning process by aligning strategic initiatives with the entity's risk appetite, identifying and mitigating risks, and seizing opportunities for growth and innovation. The board offers external perspectives, challenges assumptions, examines alternatives, reviews executive management's priorities, and approves the resulting strategy.

The outcome of this collaborative development of the strategy is a formal, multi-year strategic plan that considers different time horizons (e.g., one year, three years, five years). The strategic plan is a living document that is regularly reviewed and updated—typically through annual reviews, ongoing monitoring, and trigger-based adjustments—to remain relevant while maintaining long-term focus and adaptability. *For information on aligning risk and opportunities with strategy, refer to the Resilience Component. For further details on developing the strategy, refer to COSO's ERM Framework.*

Leading-Edge Considerations

Business Model Review

When developing a strategy, executive management proactively assesses the validity of an entity's current business model, recognizing that past successes do not guarantee future ones. By understanding evolving customer needs and macro forces such as technological disruption and demographic shifts, an entity can determine when a business model shift is necessary. To effectively assess business models and inform shifts, management can leverage structured frameworks to evaluate external forces, context mapping to identify industry trends, and tools to visualize, test, and refine potential new models before implementation. A business model reinvention is a radical transformation that can be necessary for an entity's long-term viability, requiring changes in core operations, operating models, revenue models, and offerings through digital innovation, new customer experiences, and sustainability initiatives. *For information on operating models, refer below within this Component.*

8.3. Strategy communication. Relevant parts of the strategic plan are communicated internally to employees at all levels and externally to relevant stakeholders, with the level of detail tailored to each audience based on their role, needs, and level of involvement. Executive management determines the stakeholders who require an understanding of the entity's strategy, which aspects will be shared, and through which channels. Management creates messaging for employees and encourages open dialogue and feedback to hear concerns and promote understanding. Management also leverages performance systems and metrics to communicate strategic priorities and regularly updates them to maintain clarity, relevance, and alignment. Executive management and the board consider how the strategic plan can be used to foster engagement and strengthen the entity's relationship with shareholders, and the board reviews and approves the overall communication approach, confirming that it aligns with the entity's strategy and governance expectations. While the board is not typically involved in day-to-day communications, it stays informed about the transparency, consistency, and effectiveness of strategic messaging through regular updates and discussions with executive management. *For information on stakeholder engagement and communication, refer to the Communication Component.*

Principle 9
Execute the Strategy

Executive management, with board oversight, leads the execution of the strategy, creating a supporting structure, allocating resources, and aligning initiatives throughout the entity.

Points of Focus

9.1. Structure to support the strategy. Executive management, led by the CEO, establishes an operating model to effectively support the execution of the strategy and strategic objectives. Executive management evaluates the entity's strategic goals, size, industry, geographic presence, market conditions, and regulatory requirements, among other factors, to determine the optimal operating model. This involves understanding the key functions, resources, technology, processes, and capabilities required to execute the strategy, and includes determining decision-making authority, accountability, and how teams collaborate across functions and geographies. Executive management periodically reviews the operating model and structure to confirm their alignment with the entity's evolving needs, adjusting processes, reporting relationships, and resource allocation as necessary to maintain strategic agility and operational effectiveness. *For information on people strategy and planning, refer to the People Component.*

9.2. Management's role in strategy execution. Management plays a crucial role in executing the strategy by acting as a bridge between executive management and the frontline workforce. Strategy execution is a shared responsibility that cascades throughout the entity, with management at all levels developing and implementing business line and functional strategies and action plans tailored to their specific units. Management is responsible for implementing discrete strategic initiatives, problem solving to overcome execution challenges, and motivating teams to maintain alignment with the entity's overall strategic goals. Managers provide timely and accurate information and reporting to executive management and the board on progress, challenges, and successes in strategy execution. Additionally, executive management maintains a feedback loop with management to refine strategy and facilitate effective change management, enabling the adaptation of new processes and technologies. *For an example of a functional strategy that rolls up to the entity's overall strategy, refer to the People Component.*

9.3. Capital and resource allocation. Executive management, led by the CEO, allocates financial and non-financial resources to support the strategy. The board or executive management, when appropriate, tasks a board-level or management-level committee to evaluate and prioritize investment opportunities. The committee offers the CEO recommendations on the entity's capital allocation, and the CEO then submits proposals to the board in accordance with established delegations and authority limits. As part of this process, the committee develops a multi-year capital allocation plan that aligns with the entity's strategic objectives and financial goals. Additionally, executive management identifies the most suitable sources of capital for the business model, optimizing the entity's debt and capital structure to support the strategy. The board helps executive management define the capital requirements to align with the strategy, approves the capital allocation plan and budget, monitors results through management reporting, and evaluates whether capital and resources are being allocated to maximize long-term value creation.

Leading-Edge Considerations

Making Capital Allocation Decisions: Investing in Organic and Inorganic Growth

Management is responsible for developing a focused investment strategy that aligns with the entity's overall strategy, incorporating both organic growth (e.g., internal innovation, capacity expansion, and operational improvements) and inorganic growth (e.g., acquisitions, partnerships, and strategic investments) as needed. For inorganic growth opportunities, the board's responsibility is to thoroughly understand each material or significant transaction or structural change—subject to the delegation-of-authority policy in place—and assess how it fits into the overall strategy. The board engages in proactive discussions about potential growth paths, guiding executive management as it evaluates specific opportunities. Boards establish clear criteria for their involvement, considering both quantitative factors such as the relative size of the transaction and qualitative factors such as strategic alignment. The entity's delegation-of-authority policy delineates when board input is required. Management regularly updates the board on potential targets and ongoing transactions, providing details on business plans, due diligence, and pricing. This ongoing communication allows directors to offer timely feedback and guidance, so that by the time board approval is sought, directors are prepared to make informed decisions.

Deeper Insights

Shareholder Influence in Capital Allocation

Shareholders can influence capital allocation through proxy voting and direct engagement with executive management, particularly active institutional investors or activist shareholders who advocate for financial strategies they believe maximize shareholder value. For example, some shareholders may push for increased dividends or share buybacks to generate immediate returns, while executive management may prioritize reinvesting profits into research and development, acquisitions, or infrastructure to sustain long-term growth. Executive management and the board should understand the necessity of clearly articulating the rationale behind capital allocation decisions—grounding those decisions in the long-term interests of the shareholder base as a whole, even when they diverge from specific shareholder groups' short-term demands. Where appropriate, executive management and the board are prepared to engage with shareholders to explain how these decisions support the entity's strategy and value creation.

9.4. Operating plans and budgets to align with the strategy. Management creates both annual and longer-term (e.g., three to five years) operating plans and budgets that align with the entity's strategic plans. These translate the entity's strategic plans into actionable, measurable initiatives, establishing a roadmap for execution. By setting specific performance targets and capital allocations, they enable effective oversight, allowing the board to monitor progress and hold management accountable. Management regularly reviews and adjusts these plans through a reforecasting process, aiming to adapt to market changes and confirm that operations and investment decisions are advancing corporate goals. The board considers and monitors the implementation of operating plans and reviews and approves annual budgets.

Principle 10
Measure Performance Against Strategy and Adjust

Management, with board oversight, tracks progress and performance against the strategy using agreed-upon metrics and adjusts the strategy as necessary.

Points of Focus

10.1. Performance measurement. Management establishes a process for consistently monitoring and assessing the execution of the strategy, including the use of tools and techniques to measure progress against strategic goals and objectives. Financial and non-financial key performance indicators (KPIs) as well as other indicators related to the entity's values, people, and impact—such as learning (e.g., employee training hours), growth (e.g., number of projects in R&D), and sustainability (e.g., carbon footprint)— are linked to the strategic plan. With the board's input and approval, management develops both quantitative and qualitative measures to assess the strategy's success over time, periodically reassessing these metrics to confirm they remain relevant, meaningful, and aligned with the entity's evolving strategic priorities. Management creates reporting based on established measures to monitor and oversee strategic performance. Executive management, with oversight from the board, determines which of these financial, operational, strategic, or other relevant performance metrics will be disclosed, to whom (e.g., shareholders), and how (e.g., proxy statement, direct engagement). *For information on performance management, refer to the People Component.*

10.2. Board oversight of strategy. The board's oversight of strategy is an ongoing process, embedded in regular meetings and discussions throughout the year. With support from executive management, the board monitors strategic execution through dashboard reporting on KPIs, milestones, and trends, enabling it to assess progress, identify emerging challenges, and evaluate whether resources are effectively allocated. In addition to continuous updates from the CEO, the board and executive management engage in focused strategy sessions—such as annual offsites—to align on strategic priorities and consider external influences like market dynamics, competitive pressures, and emerging risks. Oversight extends to monitoring financial and operational performance to confirm alignment with strategic objectives. The board reviews financial and non-financial metrics to track performance, while reinforcing that results must be achieved through ethical and responsible conduct. Through regular reporting, strategic dialogue, and stakeholder engagement, the board remains focused on both short-term execution and long-term value creation. *For information on management reporting and communication to the board, refer to the Communication Component.*

10.3. Strategic agility and adjustments. Executive management and the board maintain strategic agility by staying informed of market trends, macroeconomic conditions, regulatory changes, and other external forces that could impact strategy or disrupt execution. To remain responsive, they align on early warning indicators—such as declining market share, shifts in consumer behavior, or technological disruption—and conduct scenario planning to stress-test the strategy against potential challenges. When the strategy is not delivering as intended, the board helps diagnose the underlying issues, challenges management's assumptions, and confirms that corrective action is taken. Together with executive management and, when appropriate, external advisors, the board explores options such as cost realignment, mergers and acquisitions, or business model shifts. Open, candid dialogue helps distinguish between tactical adjustments and significant strategic pivots, which may involve reallocating resources or refining operations. All strategic changes are evaluated through a disciplined process, with the board reviewing assumptions, risks, and alternatives before approving adjustments.

Deeper Insights

Navigating Uncertainty Through Scenario Planning

Boards and executive management integrate scenario planning into the ongoing strategic process to strengthen strategic agility and reduce uncertainty. Management defines key strategic uncertainties, develops a range of plausible scenarios, quantifies potential impacts, and outlines the strategic options and associated trade-offs. The board actively challenges management's assumptions, tests scenario outcomes, and evaluates whether proposed strategies effectively mitigate risks or capture opportunities. Boards and management regularly revisit and update scenario plans, adapting strategic priorities as conditions evolve.

10.4. Crisis response and business continuity. Crises—such as data breaches, product failures, leadership misconduct, or geopolitical disruptions—can arise unexpectedly and must be addressed swiftly to limit reputational and operational damage. The entity maintains comprehensive, regularly tested crisis response and business continuity plans to sustain operations, protect assets, support employee safety and well-being, and bolster stakeholder confidence. Executive management engages the board in scenario planning, early issue identification, and crisis preparedness discussions. Together, they define clear roles and responsibilities, including those of board leadership, and participate in regular crisis simulation exercises. Protocols are established to guide information flows and provide the board with timely, reliable updates. During a crisis, the board contributes independent oversight, pressure-tests management decisions, and helps reinforce stakeholder trust. Post-crisis, the board and executive management evaluate impacts, guide recovery, and integrate lessons learned into future governance, risk management, and business continuity practices. *For information on culture in crisis and change, refer to the Culture Component.*

Culture

Culture is a foundational element of effective corporate governance, influencing how decisions are made, how risks are managed, how people behave, and how stakeholders perceive the entity. Culture defines the norms, expectations, and ethical climate that shape interactions from the boardroom to employees at every level.

A healthy culture reinforces the entity's strategy, purpose, and core values. It enables ethical conduct, accountability, innovation, and adaptability—essential ingredients for long-term value creation. Because culture can be both a source of strength and a potential risk, leaders must intentionally define, actively shape, and continuously monitor it.

The board and executive management share responsibility for establishing the tone at the top and embedding cultural expectations across the entity. Their role includes promoting alignment between culture and the entity's strategic goals and objectives, core values, and stakeholder expectations. By treating culture as a strategic asset, leadership helps position the entity to support long-term performance, resilience, and stakeholder trust.

Culture, as defined across COSO's ICIF and ERM Framework, is the set of shared values, attitudes, and behaviors shaped by leadership that influence how individuals act with integrity, make decisions, and respond to risk. It reflects the organization's ethical foundation and risk awareness, guiding consistent behavior in support of strategy and objectives.

Principle 11
Establish and Model Culture and Behaviors

The board and executive management work collaboratively to establish and model the desired culture and behaviors to align with the entity's strategy, core values, and ethical standards.

Points of Focus

11.1. Board culture. The board sets the tone at the top by modeling the entity's core values in its governance practices, including adopting a documented board-specific code of ethics and conduct aligned with those values. Board leadership fosters trust, openness, and accountability through respectful dialogue, active listening, and structured discussions that invite diverse perspectives and challenge assumptions. The board conducts regular self-assessments—such as 360-degree feedback among directors and evaluations of group dynamics—to identify behavioral board issues as well as opportunities to strengthen alignment with the entity's culture. Insights from these assessments inform targeted development actions, such as governance training, conflict-resolution coaching, and adjustments to board processes. These activities are transparently communicated to executive management and, when appropriate, to stakeholders, reinforcing the board's commitment to leading by example. *For information on tone at the top, refer to COSO's ICIF and ERM Framework. For information on board assessments, refer to the People Component.*

11.2. Executive management expectations and behaviors. The CEO, with board oversight, defines and regularly reinforces expectations for executive behavior that reflect the entity's core values and strategic priorities. These expectations are operationalized through a formal leadership framework or competency model, integrated into executive management performance evaluations, succession planning, and reward systems. Evaluations assess both outcomes and leadership behaviors, using structured input from peers, direct reports, and the board, and may lead to targeted coaching or development plans. Executive management models desired behaviors in communications, meetings, and daily decisions, linking their actions to core values; deviations are addressed through clear accountability measures such as prompt feedback, remediation plans, or disciplinary actions. Executive management also promotes transparency by communicating how key decisions align with the entity's purpose and core values, and by actively engaging stakeholders to reinforce cultural priorities across the entity. *For information on executive management performance, refer to the People Component.*

11.3. Defining and communicating the desired culture. Executive management, in collaboration with the board, defines the entity's desired cultural traits and links them directly to its purpose, core values, and strategic objectives. These expectations are operationalized through policies, decision-making frameworks, onboarding, leadership development, and values-based training, emphasizing that culture is demonstrated through day-to-day behaviors. Management communicates regularly with employees to underscore cultural expectations and illustrate how individual roles contribute to strategic goals. Two-way communication is supported by structured feedback mechanisms—such as surveys, listening sessions, and focus groups—that are used to monitor alignment and employee sentiment. Management reviews this feedback, adjusts messaging or programming as needed, and communicates changes made in response, reinforcing accountability and continuous alignment with the desired culture. *For information on how the entity defines its desired culture, refer to COSO's ERM Framework.*

11.4. Integration into business practices. Executive management integrates cultural priorities into business functions—such as talent acquisition, performance management, incentive design, and operational decision-making—to confirm that daily practices reinforce the desired culture. The hiring process uses behavioral assessments and scenario-based questioning to assess candidate alignment with core values, while performance evaluations include criteria that measure *how* results are achieved, not just *what* is achieved. Incentive structures, including compensation and bonus plans, are routinely reviewed to promote ethical behavior and long-term thinking over short-term, high-risk actions. Management conducts periodic reviews or cultural audits to identify policies or practices that may be misaligned with core values and updates them to support cultural consistency. The board oversees these efforts by reviewing management's reports on cultural integration and engaging in discussions about these practices' effectiveness in supporting strategic execution.

Deeper Insights

Cultural Consistency Across Partnerships and Global Subsidiaries

Executive management extends the entity's cultural expectations to external partnerships and global subsidiaries by embedding ethical, cultural, and behavioral standards into third-party contracts, onboarding, and oversight processes. This includes providing vendors, contractors, affiliates, and subsidiaries with clear guidance, training, and ongoing communication from the corporate center. Management proactively assesses cultural differences when entering new regions or partnerships and adapts materials and engagement approaches—such as training and communications—to reflect local norms while maintaining standards. For example, in geographies less culturally open to candid communication, management tailors practices to foster psychological safety and speaking up. Compliance audits, site visits, and stakeholder surveys are used to monitor adherence and address deviations promptly. The board oversees these efforts by reviewing management's reporting on third-party and subsidiary alignment with cultural expectations, confirming that governance frameworks are in place to maintain consistency across the extended enterprise.

Principle 12

Promote Ethics, Respect, and Open Communication

Executive management, with board oversight, fosters a culture in which ethical behavior, respect, and open communication are expected and supported at all levels.

Points of Focus

12.1. Ethical standards and conduct. Executive management, with board oversight, maintains a comprehensive code of ethics and conduct that defines expected behaviors aligned with the entity's core values and promotes a culture that encourages doing the right thing. The code translates values into clear behavioral guidelines and is reinforced through mandatory ethics training, regular updates, and ongoing communication across channels such as newsletters, meetings, and internal platforms. To support transparency and accountability and demonstrate leadership commitment, executive management shares recent ethical concerns, breaches, and resolutions—while maintaining confidentiality, of course.

Deeper Insights

Whistleblower Policy

To support the enforcement of ethical standards, executive management also maintains a robust whistleblower policy that provides secure, confidential, and anonymous channels for reporting code violations or other employee concerns, including independent hotlines and secure online tools. The policy is communicated and reinforced through training and internal messaging and includes specific procedures for handling complaints and protecting against retaliation. A dedicated team, typically led by the CCO, or equivalent, investigates concerns using standardized protocols, with findings documented and reported to the board through the appropriate committee. Substantiated violations result in corrective action, and the team follows up with whistleblowers when appropriate. Investigative outcomes are tracked, with recurring issues addressed through policy or process improvements, reinforcing trust, transparency, and continuous improvement in the entity's ethical culture.

12.2. Respectful workplace. Executive management fosters a work environment in which all employees are treated with dignity and respect and that encourages openness to different perspectives. This includes implementing practices that promote fairness and consistency in hiring, promotions, and daily interactions, such as standardized interview questions, clearly defined role criteria, and behavioral expectations for respectful conduct. Management monitors the workplace environment through tools like engagement surveys, anonymous feedback channels, sentiment analysis, and exit interviews to identify issues such as favoritism, unclear advancement processes, or lack of psychological safety. When concerns arise, executive management implements targeted corrective actions such as leadership coaching, communication adjustments, or policy updates. These interventions' effectiveness is tracked over time and regularly reported to the board and employees, reinforcing accountability, trust, and a respectful workplace culture.

12.3. Open communication. Executive management fosters a culture in which employees feel safe to raise concerns, challenge assumptions, and share alternative viewpoints without fear of retaliation. The entity promotes open communication through structured channels such as town halls, team roundtables, whistleblower hotlines, and anonymous digital feedback tools, and are trained to invite input, listen without defensiveness, and respond constructively. Anti-retaliation protections are clearly communicated, reinforced through training, and consistently enforced. The board monitors indicators of psychological safety—such as employee survey results, reporting trends, and feedback mechanisms—and incorporates this information into its oversight. To validate whether open dialogue is genuinely supported throughout the entity, board members may participate in listening sessions or informal conversations without executive management present. *For information on internal communication, refer to the Communication Component.*

Principle 13
Assess and Adapt Culture

The board and executive management actively support the desired culture by assessing its health, integrating insights into governance, and adapting practices in response to internal and external feedback.

Points of Focus

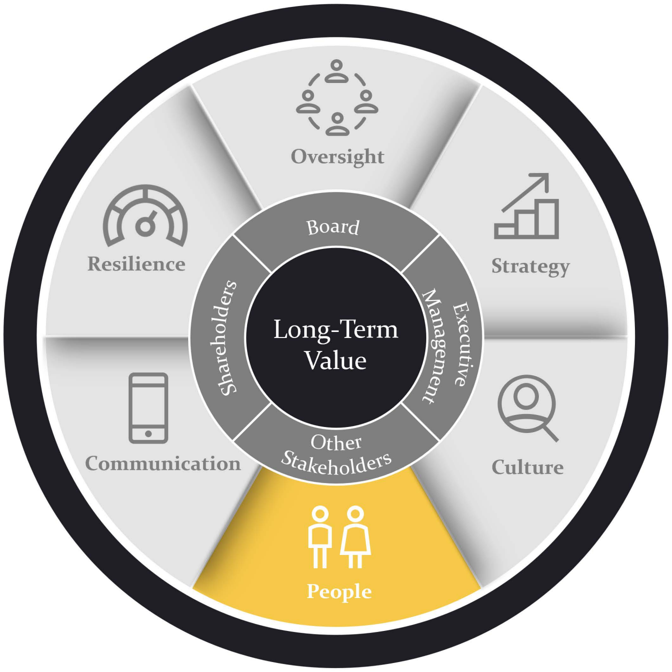
13.1. Cultural metrics and monitoring. Executive management uses a combination of qualitative and quantitative methods to continuously assess and monitor cultural health. These include engagement surveys, exit interviews, focus groups, structured cultural audits, and key talent metrics such as turnover, promotion trends, ethics hotline usage, and conduct violations. External perceptions—such as customer satisfaction, investor feedback, and social media sentiment—are also monitored to detect gaps between internal culture and external reputation. Management analyzes and benchmarks these insights over time, reporting findings to the board through dashboards or summary briefings. Early signs of misalignment prompt targeted cultural interventions, and management communicates follow-up actions to employees and stakeholders, reinforcing responsiveness and commitment to cultural integrity.

13.2. Board oversight of culture. The board actively oversees cultural alignment with the entity's strategy and risk appetite by incorporating cultural considerations into its review of strategic plans, scenario analysis, and ERM. Specific oversight responsibilities—such as monitoring ethical conduct, incentive structures, and leadership behavior—are delegated to relevant board committees. Executive management regularly gives the board detailed culture assessments, including dashboards, engagement data, and feedback summaries. The board also confirms that cultural factors are integrated into executive performance evaluations and succession planning. To gain independent perspective on whether the lived culture reflects stated values and expectations, board members may solicit an objective review of culture from IA or engage directly with employees or external stakeholders through listening sessions or site visits.

13.3. Culture in crisis and change. Executive management incorporates cultural considerations into crisis response and organizational change initiatives—such as leadership transitions, mergers, or reputational events—by developing change management plans that define the purpose of the change, expected behaviors, and clear success metrics like engagement levels, retention, and cultural alignment. The board and executive management model adaptability and resilience throughout the change process, regularly communicating the cultural rationale behind decisions and reinforcing key messages. Management monitors workforce response using tools such as pulse surveys, listening sessions, and anonymous feedback mechanisms, and tracks predefined cultural indicators to assess impact. When cultural risks or misalignments emerge, strategies and interventions are adjusted to maintain alignment with desired values and behaviors. *For information on crisis response and business continuity, refer to the* *Strategy Component.*

13.4. Feedback and responsiveness. Executive management actively monitors cultural misalignment—such as gaps between stated values and actual behaviors—using feedback channels such as anonymous surveys, digital suggestion tools, listening sessions, and IA and third-party assessments. Feedback from both internal and external stakeholders is reviewed, analyzed for trends, and shared with the board to inform oversight. When issues are identified, management develops and communicates targeted action plans and follows up with employees to show how their input led to specific improvements. This visible responsiveness reinforces trust, psychological safety, and a culture of continuous improvement.

People



People at every level are fundamental to corporate governance, strategy execution, and long-term value creation. Directors, executives, and employees each play distinct yet interconnected roles in shaping ethical culture, surfacing and managing risk, and making decisions that align with the entity's purpose and objectives. When every individual understands and owns their governance responsibilities—whether casting votes in the boardroom, upholding controls, or speaking up about concerns—the result is a system of distributed oversight that strengthens accountability and protects stakeholders.

At the same time, a skilled and engaged workforce powers operational excellence and strategic agility. Effective people management that attracts, develops, and retains capabilities at every level is critical to sustained performance and competitive advantage. While boards have traditionally focused on overseeing executive management, increasing complexity and workforce-related risks have expanded the scope of their attention. Boards today must understand broader workforce dynamics and their impact on strategy.

Under board oversight, executive management builds leadership pipelines, fosters accountability, and aligns people programs with purpose and culture. Compensation, performance management, and continuous learning serve as critical levers that translate workforce capability into long-term value creation.

Principle 14
Deploy People Strategy and Succession Planning

Executive management develops and executes a comprehensive people strategy—paired with succession plans for directors, executives, and other business-critical roles—that aligns with the entity's long-term strategy and business needs.

Points of Focus

14.1. People strategy and planning. Executive management establishes a people strategy that supports the execution of the entity's business strategy, taking into account growth plans, labor market trends, and the needed skills and capabilities. The CHRO, or equivalent, manages a robust process to evaluate current skills and capabilities, capacity, costs, risks, technology, and other critical factors to inform strategic decision-making. The planning process includes organizational design considerations, identifies adjustments needed to enhance operating efficiency, and integrates business continuity and resiliency planning. *For information on attracting, developing, and retaining talent in alignment with strategic objectives, refer to COSO's ICIF.*

Leading-Edge Considerations

Talent Planning and the Use of External Resources

Executive management considers internal and external resources to address skill gaps, weighing the entity's immediate and long-term needs, urgency, available labor, and budget constraints to determine how a "buy" (hire externally), "build" (develop internally), or "borrow" (hire temporary external talent) strategy could address open issues. The entity can leverage all three approaches by tapping an established talent acquisition program, a talent planning process, and employee development programs. In addition to hiring or contracting talent, executive management may utilize shared service models, which can include internal centralized teams, co-sourced arrangements with third parties, or captive service centers. When the entity needs immediate improvements in capabilities such as operational performance or enhanced risk response, executive management can engage these resources for support in areas such as data analysis, IT, AI, or cybersecurity.

14.2. Impacts of technology on the workforce. Executive management maintains a process to evaluate how new technologies impact the workforce. This includes identifying roles at risk of displacement, assessing opportunities for augmentation, and integrating human oversight to mitigate potential risks such as bias. The board and executive management evaluate strategic decisions through both an operational lens and the entity's core values, confirming that workforce transformation aligns with long-term shareholder value and is carried out with care and transparency. The entity maintains a comprehensive approach to employee development, with targeted investments in reskilling and upskilling to support employee readiness for evolving business and technology needs. The board oversees the alignment of workforce technology with the entity's long-term strategy and ethical standards for responsible use. *For information on employee development programs, refer below within this Component.*

14.3. Varied workforce composition. Executive management is committed to attracting and retaining the right mix of top talent to drive the strategy and considers how workforce composition plays a role in doing so. Management sets recruitment and retention objectives to attract and retain people with a mix of attributes that will best support the entity's ability to deliver products and services that its customers want. Executive management monitors talent attraction and engagement across all demographic groups and supports the cultivation of a fair and respectful culture to boost employee retention. They also consider the strategic implications of both mandatory and voluntary disclosures, aligning transparency efforts with the entity's broader talent goals. *For information on fostering a respectful culture, refer to the Culture Component. For information on attracting, developing, and retaining talent, refer to COSO's ERM Framework.*

14.4. Board oversight of people strategy. The board provides oversight of the entity's people strategy and talent pipeline, recognizing its importance in supporting the successful execution of the entity's strategy. The board monitors how management is addressing key talent-related risks and opportunities such as geographic labor dependencies, third-party reliance, workforce availability, and technological disruption. Executive management also updates the board on regulatory and labor compliance as well as broader workforce trends that may impact business performance. To maintain a future-ready workforce, the board monitors investments in job redesign, upskilling, and alternative talent models that align with long-term business goals. As part of its oversight, the board engages with the CHRO, or equivalent, to gain visibility into workforce dynamics, leadership development, and succession planning at the executive level. *For information on board oversight responsibilities, refer to the Oversight Component.*

14.5. Board succession. The board annually reviews a multi-year board succession plan with a horizon of at least three to five years and considers board roles (including board and committee leadership and committee membership), director tenure, expected retirement dates, and other relevant factors. The succession plan also outlines the board's approach to fostering and developing future board leadership. *For information on board composition and director nominations, refer to the Oversight Component.*

14.6. CEO, executive, and critical-role succession. The board maintains a comprehensive succession planning process for the CEO role that includes contingency plans for an unexpected departure. The CEO, in collaboration with the CHRO, or equivalent, has a succession planning process for executive management and other business-critical roles. These plans identify potential internal and external candidates, assess their readiness, and support their development to enable smooth and effective transitions. Succession plans, including emergency plans, are reviewed with the board at least annually, with greater frequency in circumstances such as underperformance, individual health concerns, industry changes, or shareholder pressure. Executive management maintains a pipeline of successor candidates (including candidates for interim and emergency succession scenarios), regularly briefs the board on their readiness, and periodically exposes them to the board.

Leading-Edge Considerations

Communicating the Plan for CEO Succession

Boards understand the importance of communicating their succession process to shareholders and other key stakeholders. The entity outlines the CEO succession process in the proxy statement, including a description of who leads the process, how the entity identifies and assesses candidates, how often the board reviews the succession plan, and how the board would respond to a CEO departure. This enhances confidence among shareholders and other stakeholders that the entity can handle expected or unexpected departures. *For information on communication with external stakeholders, refer to the Communication Component.*

Principle 15
Manage People and Compensation

The board and executive management establish comprehensive onboarding and offboarding programs and align compensation and incentives with performance and ethical behavior, regularly evaluating the programs' effectiveness to attract and retain talent in alignment with the entity's strategic needs.

Points of Focus

15.1. Director and executive onboarding. The board provides comprehensive director onboarding that covers, among other things, the entity's products and services, strategic goals, financial performance, organizational structure, operations, risk management, the competitive landscape, and key risks and opportunities. This process includes one-on-one meetings with board leadership, board peers, and executive management, and may include the assignment of a board mentor. Executive management also participates in a structured onboarding program designed to accelerate integration, build alignment with the entity's strategy and culture, and establish early connections with key stakeholders, including directors. *For information on director nominations and CEO selection, refer to the Oversight Component.*

15.2. Director compensation. The board approves market-competitive director compensation packages aligned with the entity's long-term strategy and performance. An appointed committee makes compensation recommendations to support transparency, regular review, and compliance with legal and ethical standards. Board compensation includes a balanced mix of cash and equity incentives, with equity grants drawn from a pool approved by shareholders. The entity provides director and officer liability insurance policies to protect directors and other key executives from personal financial losses as a result of legal actions related to their roles. The entity regularly reviews these policies to reflect changing legal and business environments.

15.3. Compensation aligned with performance and ethical behavior. The board, through its compensation committee, oversees the entity's compensation philosophy and regularly evaluates the effectiveness of executive compensation and incentives against performance goals. Performance metrics in compensation reward achievement and deter short-termism or unethical tactics such as aggressive sales pressure or rushing unready products to market. The compensation committee verifies that plans balance near-term goals with long-term value creation and comply with regulations. Executive management reviews how compensation and incentives influence behavior, compares incentive payouts to results and explains how those results were achieved, and reports insights to the compensation committee.

15.4. CEO and executive compensation. The board and its compensation committee establish a compensation plan for the CEO, and in some cases, executive management, that links pay to performance, based on clear, measurable metrics that support both short-term and long-term strategic goals and objectives. The committee regularly benchmarks compensation plans against market practices to remain competitive in attracting and retaining top talent within the entity's operating environment. The board considers the effectiveness of compensation in reinforcing desired outcomes, aligning executive incentives with shareholders' interests, and disincentivizing unethical behavior. The board maintains transparency in executive compensation policies and engages directly with shareholders when appropriate. The compensation committee also reviews and approves required disclosures to accurately reflect the entity's compensation philosophy and practices. *For information on the compensation committee's responsibilities, refer to the Oversight Component.*

15.5. Employee compensation. The board and executive management are aligned on the compensation philosophy and the design of employee pay, benefits, and other incentives in a way that matches the entity's strategy, purpose, core values, and culture. Through analysis and benchmarking, executive management shows the board that pay is competitive and equitable. Executive management reviews compensation plans including salaries, bonuses, equity-based compensation, and benefits, and reviews associated risks and compliance to enable transparent disclosure. *For information on rewarding performance in alignment with strategy, refer to COSO's ERM Framework.*

Leading-Edge Considerations

Total Rewards

Executive management delivers a *total rewards* program designed to attract, retain, and engage a varied workforce, with flexibility to personalize offerings based on individual preferences, career stages, and life circumstances. Programs emphasize a mix of competitive base pay, performance-based incentives, health and wellness benefits, flexible work arrangements, paid caregiving leave, learning and development opportunities, equity participation, and purpose-driven elements such as volunteer time. Recognizing that employees value different types of rewards, the program offers tailored options—for example, student loan assistance for early-career employees or phased retirement for those later in their careers. The value and structure of the program are clearly communicated to promote employee understanding and participation. Executive management may engage third-party advisors to benchmark offerings, assess employee preferences, and optimize the program to remain competitive and cost-effective while reinforcing the entity's values, culture, and strategic objectives.

15.6. Offboarding. The board and executive management oversee a structured offboarding program that respects departing directors and employees, protects the entity's brand, and extracts insights to strengthen culture and people strategy. Executive management conducts exit interviews, knowledge-transfer sessions, and feedback reviews to understand departure drivers and identify cultural or strategic misalignments, later reporting aggregated findings to the board. For executive departures, the board reviews transition plans, contractual obligations, and external communications to mitigate legal and reputational risk and preserve future relationships. The relevant board committee periodically evaluates offboarding metrics and themes to confirm that practices uphold ethical standards, comply with regulations, and support long-term value creation.

Principle 16
Drive Performance and Development

The board and executive management drive performance management and tailored development programs that align goals with strategy, strengthen capabilities, and reinforce accountability at every level.

Points of Focus

16.1. Board assessments. The board annually assesses its own accomplishments and performance, drawing on a range of inputs to support continuous improvement. Performance assessments include a review of board composition and structure, board roles and responsibilities, committee effectiveness, operations and efficiency, reporting and communication, decision-making processes, training and development needs, and board culture. The board actively seeks input from executive management to inform its performance assessment and provide additional perspectives on board effectiveness. The board periodically conducts interviews as part of the assessment process and engages a third party to perform independent assessments. The board integrates assessment results into its annual action plans; the chair also solicits ongoing real-time feedback about director performance in debrief or executive sessions.

Leading-Edge Considerations

Individual Director Assessments

The board conducts periodic individual director assessments, through surveys and/or interviews, to evaluate each director's contributions and performance in support of the entity's strategy. Assessments may include questions about the director's strategic thinking abilities, understanding of the entity and any current issues, level of participation and commitment, interpersonal communication skills, and overall level of contribution. A self-assessment is included to prompt self-reflection and added accountability. *For information on assessing board culture as part of the assessment process, refer to the Culture Component.*

16.2. CEO performance. The board conducts a formal evaluation of the CEO's performance at least annually, based on established metrics, and periodically supplements this with 360-degree feedback. The evaluation considers both short- and long-term financial and non-financial performance results, progress against strategic goals and objectives, effectiveness in capital allocation, and qualitative factors such as leadership capability and alignment with the entity's values and culture. The CEO and board maintain open communication regarding performance expectations and confirm that CEO goals are fully aligned with the strategy. Board leadership offers real-time feedback and discusses learning and development opportunities to enhance the CEO's ability to lead the entity in alignment with shareholder interests. If necessary, board leadership, in consultation with the board, takes corrective actions, including termination, to address performance and reinforce CEO accountability.

16.3. Executive management performance. The CEO sets clear, measurable, and time-bound goals for executive management that are aligned to strategy and cascade through the entity, helping to align individual and team targets with the broader entity objectives. Annually, the CEO and executive management agree on specific goals and KPIs, incorporating both financial and non-financial metrics, which are shared with the board. The CEO provides ongoing performance feedback as well as formal performance reviews, at least annually. The board holds the CEO accountable for executive management performance through the CEO performance-management process. The board provides performance feedback on select executive roles (e.g., audit committee feedback on the CAE) based on its oversight role and firsthand interactions and observations. The board also monitors performance through regular reporting on agreed-upon KPIs to reinforce executive management accountability. *For information on performance measurement against the strategy, refer to the Strategy Component.*

16.4. Employee performance. The entity has an established process to assess employee performance based on standardized and objective evaluation criteria, applied consistently and transparently across all levels. The process establishes individual performance goals and assesses outcomes using a balanced set of metrics, such as innovation, operational excellence, risk management, workplace safety, ethics and conduct, and compliance. Individual performance goals and metrics are directly linked to the entity's performance goals and objectives, cascading throughout all levels of the organization to drive accountability and results. Management conducts real-time or interim performance discussions throughout the year, in addition to a comprehensive annual review, to provide employees with constructive feedback that clarifies expectations, highlights strengths and development areas, and enables timely course correction. The process also includes a structured approach for recognizing high performance aligned with strategic goals, core values, and cultural awareness as well as a clear approach for addressing performance concerns. It is integrated with the entity's broader people strategy to support employee development, mobility, and succession planning. Executive management regularly reviews and updates the process to align with the entity's goals.

16.5. Board development. Each director has tailored learning opportunities to refresh and advance knowledge and fluency in areas critical to effective board oversight. The board regularly evaluates its learning and development needs, establishes a continuing education policy for directors that includes external learning opportunities, and requires directors to report annually on their participation.

16.6. CEO and executive development. The entity offers CEO and executive management opportunities to develop knowledge, skills, and capabilities through formal coaching and mentoring and access to internal and external development programs. The CEO and executive management take ownership of their own development plans by proactively identifying areas for growth and seeking learning opportunities to stay ahead in a rapidly evolving business landscape. All executives have tailored learning and development plans that may include formal training, personalized assessments, coaching, and mentorship based on individual needs and the resources available. Directors may be leveraged as executive mentors or coaches to bring their experience, strategic insights, and external perspectives.

Leading-Edge Considerations

Board Members as Executive Coaches and Mentors

Board involvement in executive development can be valuable, but it requires a carefully structured approach with clearly defined guardrails. To be effective, such programs are carefully designed to protect the board's independence, support objective evaluation of leadership potential, and avoid introducing bias into CEO succession planning. When done well, access to executive management can support informal coaching and leadership development, while giving the board deeper insight into the entity's bench strength. A formal program, when appropriate, can allow for the thoughtful transfer of experience and insight from seasoned directors to executives. The success of these efforts depends on transparency, clear role definitions, and a commitment to objectivity, which together help boards contribute to executive growth while maintaining the integrity of board-management relationships.

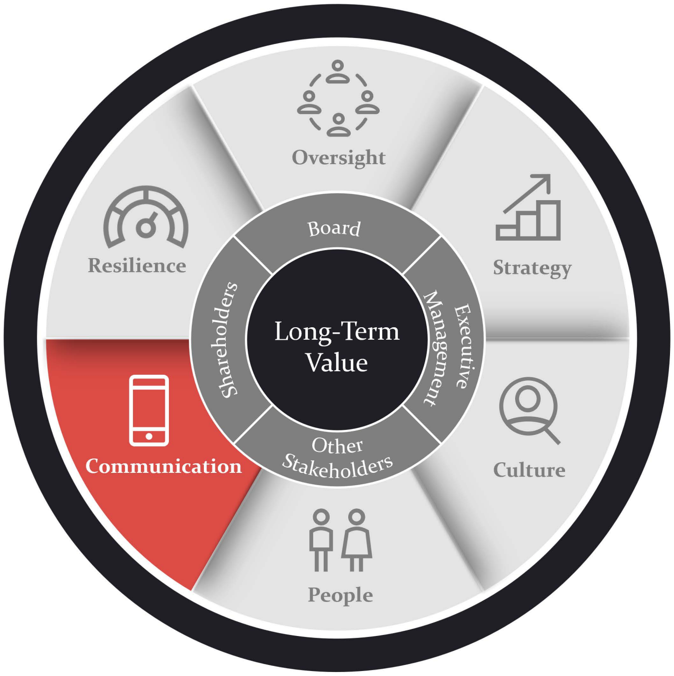
16.7. Employee development. The entity maintains a structured employee learning and development program that supports both the entity's goals and individual growth. Management periodically conducts a skills-gap analysis to compare current skills and capabilities with those necessary for the future, highlighting needed upskilling or reskilling. Learning and development programs include mandatory compliance training as well as general upskilling to prepare employees for evolving roles. High-potential employees participate in targeted development programs that build leadership capabilities and serve as a pathway to career advancement. Executive management regularly reviews these programs to confirm they are meeting strategic goals, performance KPIs, and compliance requirements—and addressing feedback to maintain their effectiveness.

Deeper Insights

High-Potential Employee Development Programs

Executive management implements and maintains a high-potential employee development program that maintains a leadership pipeline to support long-term organizational continuity and success. These programs systematically identify, assess, and develop high-potential talent—particularly for roles critical to business continuity—using tools such as performance reviews, 360-degree feedback, psychometric evaluations, and management input. Development plans are tailored to individual needs and integrated into broader succession planning, with structured opportunities for mentorship, leadership rotations, stretch assignments, and coaching. Progress against these plans is regularly reviewed by executive management and shared with the board.

Communication



Communication is a cornerstone of effective governance, enabling stakeholders to stay informed, engaged, and aligned with the entity's strategic direction. At its core, good communication provides complete, accurate, timely, and relevant information—building transparency and trust and supporting long-term value.

Entities must balance the need for openness with the responsibility to protect sensitive information. While some disclosures are required by regulation, others must be carefully considered based on competitive risks, privacy concerns, and stakeholder needs. Corporate governance plays a critical role in guiding these decisions and promoting consistency across communication channels.

Communication takes many forms, from regulatory filings to internal messaging; its purpose shapes its content, format, and audience. Leaders need to apply corporate governance principles and practices in the context of the specific type of communication being considered.

Principle 17
Commit to Information Quality

Executive management, with board oversight, maintains high standards of information quality to support informed decision-making.

Points of Focus

17.1. Information accuracy and reliability. Executive management maintains the accuracy and reliability of information by overseeing verification processes and allocating necessary resources for validation. Management designs and implements data verification processes and controls and collaborates with internal and external auditors to evaluate effectiveness and validate the integrity of information being disseminated. The board or responsible committee reviews and monitors these processes to confirm their robustness and effectiveness, focusing on the accuracy of financial reports, strategic updates, and operational disclosures. The board also promotes a culture of accountability by encouraging stakeholders to appropriately question and verify the information they receive. *For information on establishing robust information and communication processes, refer to COSO's ICIF.*

17.2. Relevance and clarity of information. Executive management is accountable for information being relevant and clear, with minimal technical jargon. Management structures communications to meet the specific needs and interests of various stakeholder groups, making certain that the information is fit for the purpose or decisions that leaders need to make, whether on financial and economic performance, strategic initiatives, operational developments, or other topic areas. For internal stakeholders, information helps them make decisions that allow effective pursuit of the entity's strategic goals and objectives. The board and executive management promote feedback mechanisms and support ongoing refinement of communication practices to uphold high standards of information accessibility, quality, and stakeholder understanding.

17.3. Using language purposefully. Executive management emphasizes the importance of consistent terminology to promote a shared understanding across stakeholder groups, including defining industry-specific jargon and strategic concepts such as *sustainability* and *innovation*. To help eliminate ambiguity and misinterpretation, management maintains definitions of commonly used terms and makes them accessible to all levels of the entity. The board supports these efforts by advocating for precision in language use during meetings and strategic planning sessions, encouraging directors and executive management to reinforce common understanding when discussing key initiatives. Management solicits employee feedback to identify terms that require clarification or additional context.

17.4. Enhancing information with technology. Executive management enables informed decision-making by establishing processes and overseeing the adoption of advanced technology solutions to enhance information quality, timeliness, and usability. Management defines roles and responsibilities for maintaining data accuracy and reliability through automated verification and monitoring processes. Technology-enabled processes, including analytics and real-time monitoring, allow prompt identification and resolution of data issues, bolstering confidence in decision-making. Management periodically assesses the effectiveness of these technologies and related controls, reinforcing data security, privacy, and stakeholder trust in the information. *For information on managing technology risk, refer to the Resilience Component.*

Deeper Insights

Enhancing Corporate Governance Through Advanced Information Management Technology

Technology can enhance corporate governance by supporting effective information management in several ways:

- Advanced information management systems and data analytics tools contribute to data integrity by automating verification processes and minimizing human error
- Machine learning algorithms and AI can continuously monitor data inputs, flagging anomalies for review and allowing only verified data to support decision-making processes
- Cloud computing and high-speed data processing capabilities enable entities to handle large volumes of data in real time, facilitating the rapid identification and correction of inaccuracies
- Integrated platforms that consolidate data from multiple sources create a readily available source of information accepted for decision support analyses, enhancing consistency across departments and reducing discrepancies
- Technological frameworks bolster data security and privacy through encryption, access controls, and regular security audits, protecting information from unauthorized access and manipulation
- Digital platforms further support stakeholder engagement by providing timely access to information and enabling feedback mechanisms, fostering trust and transparency

17.5. Balancing transparency with strategic confidentiality. Executive management balances transparency with confidentiality when distributing information to internal and external stakeholders. This requires establishing and adhering to a communication schedule that aligns with stakeholders' decision-making timelines while considering the sensitive nature of certain information. Management establishes clear protocols to balance mandatory disclosures, voluntary communication goals, and the protection of internal information critical to strategic execution and intellectual property. By leveraging advanced technology and clear communication protocols, management allows for efficient dissemination of necessary information while preserving confidentiality.

Deeper Insights

Document Retention

Effective information management relies on document retention policies that maintain accurate, relevant, and accessible information for stakeholders while preserving traceability to its source. This includes establishing data classification systems that differentiate between public disclosures and confidential documents, setting retention timelines based on regulatory mandates and business requirements, and defining protocols for secure document disposal. For example, an entity might implement a policy requiring board meeting minutes to be retained indefinitely to uphold historical accountability, with preliminary drafts of finalized internal reports securely deleted after a specified period. *For information on policy documentation, refer to the Resilience Component.*

17.6. Communication policies, monitoring, and compliance. Executive management establishes communication policies designed to support the effective dissemination of information to internal and external stakeholders. These policies are crafted to align with regulatory requirements while being cognizant of stakeholder preferences, emphasizing transparency and accountability through clear expectations and responsibilities. Management conducts regular monitoring and maintains appropriate documentation of communications to verify compliance with policies and address any issues promptly. Any significant policy violations are promptly reported to executive management and, when necessary, escalated to the board.

Principle 18
Engage Stakeholders Strategically

Executive management identifies its key internal and external stakeholders and establishes appropriate channels to effectively share information, solicit feedback, and address concerns.

Points of Focus

18.1. Identification of stakeholders. Periodically, executive management conducts a thorough analysis to determine the entity's key stakeholders and their expectations, how decisions and activities impact them, and what information they require. Internal stakeholders may include relevant parties such as the board, executive management, management, and employees. External stakeholders may include shareholders, regulators, customers, consumers, vendors, community members, business partners, and others who may materially impact the entity or vice versa. Executive management clearly distinguishes between internal and external stakeholders and the impact they can have on the business. This analysis allows for careful consideration of paths forward when different stakeholders' perspectives and interests are not aligned.

18.2. Communication channels. Executive management maintains a range of communication channels tailored to the needs and preferences of different stakeholder groups. These channels serve distinct purposes: all-hands meetings are used to communicate strategic priorities and updates directly to employees; surveys gather feedback; newsletters share performance and initiative highlights; social media provides real-time engagement; and portals offer centralized access to important documents and announcements. Management conducts periodic assessments of these communication tools to identify areas for improvement and confirm that they continue to meet stakeholder needs and expectations. By providing timely access to information and facilitating ongoing dialogue, these channels help build trust and make stakeholders feel valued and engaged.

18.3. Shareholder engagement. Executive management, with support from the board, periodically identifies shareholders' key concerns and priorities through direct meetings and other means, allowing the entity to consider their perspectives in decision-making processes. Executives, such as the CFO, corporate secretary, and the investor relations (IR) function, work together to identify which shareholders to engage based on the topics to be addressed as well as a process to prepare for engagement meetings. The board works with executive management to be accessible and responsive to appropriate shareholder inquiries related to corporate governance, such as board leadership and executive compensation. Encouraging active shareholder participation in corporate governance is vital and requires understanding of their interests and expectations.

18.4. Board engagement with other key stakeholders. The board engages with key stakeholders, beyond shareholders, based on the importance of these relationships to the entity's long-term value. Board priority is given to high-value activities, focusing on key stakeholders such as employees and regulators. The entity actively monitors a channel for stakeholder communications to the board, and directors participate in key stakeholder meetings, facility tours, and regulatory engagements as appropriate. Executive management prepares directors for stakeholder engagements, aligning communications with the entity's positions and summarizing engagement outcomes. The board directs executive management to assess key stakeholder interests, establishing processes to evaluate and prioritize their influence on the entity. Executive management provides the board with an analysis of stakeholder impact prior to the board's review and approval of key strategic decisions. Management reviews and reports on engagement outcomes and feedback mechanisms, integrating this information into strategic planning and decision-making.

Deeper Insights

Legal or Regulatory Obligations to Stakeholders

While entities commit to upholding their obligations to shareholders, they recognize that legal and regulatory obligations may extend to other stakeholders. Compliance with labor laws and employment regulations govern the entity's responsibilities toward its workforce, enabling fair treatment and workplace protections. Additionally, the entity may be subject to regulatory requirements within the communities in which it operates, addressing areas such as public safety, economic impact, and environmental sustainability. Environmental regulations, in particular, may impose obligations that influence operational decisions, even when they result in short- or intermediate-term financial trade-offs. Policymakers and regulators establish these frameworks, and the entity commits to adhere to them while balancing shareholder interests with broader legal and societal responsibilities.

Principle 19

Communicate Effectively with Internal Stakeholders

Effective internal reporting and communications enable timely, accurate, and secure information flow through the entity, fostering informed decision-making, transparency, and internal alignment.

Points of Focus

19.1. Facilitating cross-functional information flow. Executive management establishes systems and processes that enable seamless horizontal communication between departments or functions, making relevant information accessible to all parties involved in achieving entity goals. These systems include integrated platforms and collaborative tools that support real-time information-sharing, eliminating silos, and enhancing decision-making. Management encourages regular interdepartmental meetings and workshops to promote the exchange of ideas and insights across departments or functions. By fostering an environment of open communication and collaboration, executive management harnesses diverse perspectives to drive strategic initiatives and enhance operational efficiency. Executive management monitors the effectiveness of cross-functional communication and adjusts as necessary to optimize information flow.

19.2. Enhancing top-down and bottom-up communication. Executive management communicates strategic objectives and priorities to all organizational levels, aiming to translate strategic directives into actionable plans that align with the entity's strategy and goals. Disseminating information effectively involves using a variety of communication channels, such as meetings, reports, and digital platforms. In parallel, management supports bottom-up communication, empowering employees to share feedback, ideas, and concerns. Tools such as surveys, suggestion systems, and open forums capture employee insights and incorporate their voices into decision-making processes. Executive management promotes a culture of transparency and inclusivity, regularly reviewing the effectiveness of communication practices to foster engagement across all levels. *For information on active listening and other forms of internal information flow, refer to the Culture Component.*

19.3. Management reporting and communication to the board. Executive management provides timely, relevant, and clearly structured information to support informed board decision-making. Reports align with agenda topics and are tailored for board use, and an executive of the relevant function or department reviews all materials to confirm quality and relevance. Executive management appoints a high-level reviewer—such as the CFO, general counsel, or corporate secretary—to confirm that materials across departments and functions are jargon-free and provide essential details. Management is clear on the goal of providing information to the board (e.g., providing updates, seeking board guidance, and seeking board approval) and communicates the goal upfront through an executive summary. Messaging is transparent, providing the board with insight into not only positive news but executive management's concerns and challenges. Dashboard reporting is leveraged to convey critical information and trends, providing data and messaging that are appropriately contextualized for a board audience; the board regularly offers feedback to enhance report quality and relevance. The board may also receive objective reporting from functions such as risk management, compliance, and IA, supplementing the information with external sources, from industry reports and expert opinions to market analyses and benchmarking data.

Leading-Edge Considerations

Optimizing Board Effectiveness Through Secure Digital Platforms

Emerging technologies are transforming how boards operate, enabling greater transparency and agility in decision-making. Integrated board oversight platforms—such as secure board portals and centralized governance, risk, and compliance (GRC) systems—streamline collaboration and offer quick access to critical information, strengthening the board's oversight abilities. Electronic board books provide an efficient and secure alternative to paper materials, supporting instant updates and enhanced data protection through encryption and access controls. When thoughtfully implemented, these platforms go beyond document management by offering messaging, communication, and director education tools that foster engagement and continuous learning. Customization features allow alignment with the entity's specific governance structures and reporting processes, further supporting analytics and strategic oversight. However, adopting emerging technologies may have implications for confidentiality, oversight responsibilities, and personal liability that should be reviewed to confirm that practice aligns with fiduciary duties and does not introduce new governance or compliance risks.

19.4. Governing the use of technology. The board sets expectations for the responsible adoption and oversight of technology, emphasizing ethical considerations, risk mitigation, and compliance with relevant laws and regulations. Executive management establishes governance structures, policies, and procedures to assess and guide the deployment of technologies such as AI, machine learning, and blockchain. These processes recognize that technology can differ in maturity, risk profile, and applicability across functions. For example, technologies used in finance may require a higher level of human oversight, while operational areas may benefit from greater automation and scale. Management actively fosters a culture of responsible technology use by providing ongoing training and resources, embedding ethical, strategic, and legal considerations in the evaluation, implementation, use, and monitoring of emerging technologies. *For information on managing technology risk, refer to the Resilience Component.*

19.5. Escalation. Executive management, with board oversight, establishes and maintains clearly defined escalation processes for critical matters so they are promptly communicated to the relevant levels. Management establishes policies and training for how to identify and determine when to escalate critical matters, such as illegal acts or cybersecurity incidents. Policies define the roles and responsibilities of involved parties, including reporting structures and lines of communication to executive management, the board, and its committees. Escalation policies and processes are reviewed annually to confirm they are working as intended and support appropriate coordination and communication among assurance functions such as compliance, risk management, and IA. *For information on delegation-of-authority policies and authority limits, refer to the Oversight Component. For information on escalation related to crisis response, refer to the Strategy Component.*

Principle 20
Communicate Effectively with External Stakeholders

Executive management, with board oversight, directs a transparent and compliant external communications program that builds and protects the entity's reputation, meets legal obligations, and reinforces strategy.

Points of Focus

20.1. Executive oversight of external communications. Executive management oversees the rigorous review and approval (or recommends to the board/committees for their approval) of external reports, disclosures, and communications. Appropriate members of management assess the risks associated with the dissemination of external information, aligning accountability with the type of information, which can range from regulated filings to marketing campaigns. Based on their assessment, executive management may establish controls to verify the information's quality and relevance, such as involving multiple levels of cross-functional management oversight, appointing a specific committee or individual to be accountable, or enhancing review protocols before dissemination.

Deeper Insights

Maintaining a Social Media Policy

Social media is a powerful tool for public communications, influencing perception as well as employee engagement. An effective social media communications policy is crucial for managing an entity's reputation and maintaining consistent messaging across all platforms. Executive management, with board oversight, develops a policy that emphasizes oversight and accountability, potentially assigning a dedicated team to monitor mentions of the entity on social media platforms. This team operates within predefined crisis communication protocols, swiftly addressing any incidents that may arise, such as controversial posts that tie back to the entity. The policy includes regular employee training sessions on regulatory compliance and the impact of online activity on public perception. By empowering employees as brand ambassadors, the entity not only enhances its public image but fosters a culture of responsible and positive engagement.

20.2. Board oversight of external communications. Directors understand their oversight role with respect to the entity's various types of external communications, from regulated filings to disclosures such as sustainability reports and general communications such as marketing campaigns. The board also understands how executive management monitors the quality of external information, as defined above. Executive management provides guidance on which communications require board approval, and which are being presented to the board, while the board and its committees regularly review and approve critical disclosures.

20.3. Disclosure committee. Executive management establishes a dedicated committee that oversees the entity's external reporting and disclosure practices to help maintain the integrity and reliability associated with significant disclosures. This committee consists of executives and key leaders from various functions, such as finance, IA, legal, compliance, IR, and communications, reflecting a diverse range of expertise necessary for comprehensive review and analysis of disclosures. The committee's charter defines its purpose, authority, and responsibilities, with members accountable for reviewing information that could significantly influence investment decisions before public release.

Leading-Edge Considerations

Expanding the Role of the Disclosure Committee Beyond Financial Topics

Traditionally, disclosure committees have focused almost exclusively on financial disclosures and communications. However, executive management can leverage the discipline the committee brings to make other external communications more effective. After considering the relationship between the disclosure committee and relevant functional leaders responsible for disclosure in other areas (e.g., sustainability or cybersecurity), executive management may expand the disclosure committee's scope and/or membership or establish other protocols to confirm appropriate coordination and alignment in external communications.

20.4. Entity spokespeople. Executive management establishes clear guidelines for identifying and designating official entity spokespeople, including those responsible for two-way communication, such as IR professionals. These individuals are authorized to communicate externally on behalf of the entity and play a vital role in conveying messages from the market and key stakeholders back to executive management. Recognizing these roles' dual function is crucial for promoting consistent, professional, and aligned communications that advance the entity's strategic objectives. This includes defining spokespeople's roles and responsibilities and confirming that they are trained in the entity's communication policies and adhere to ethical standards. The board receives regular updates on the entity's public engagement, including workforce interactions and social media activity.

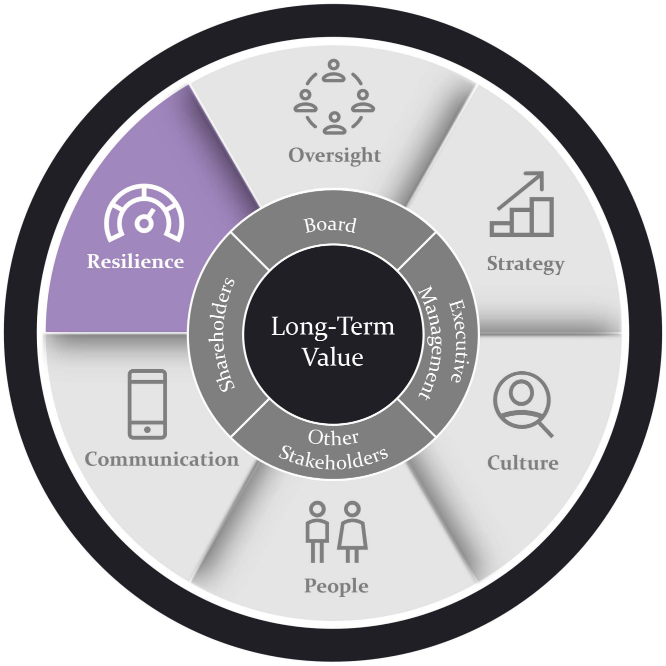
Leading-Edge Considerations

Taking a Public Policy Stance

Entities increasingly face pressure to take public policy positions on issues currently in public conversation. Stakeholders may expect entities to voice a stance on controversial matters that may or may not directly impact the entity's operations. To navigate these forces, entities establish policies and procedures for engaging in public policy debates. This includes identifying issues that are relevant to the entity and its stakeholders; assessing the incremental costs and benefits of taking a public position; considering the entity's capability to follow with action if executive management decides to take a stance; and confirming that any public stance is consistent with the entity's purpose, values, and long-term strategic goals. The board plays a critical role in overseeing the entity's policy positions by validating that a robust process is in place and acting as a sounding board for management. Management's policies and procedures for reviewing and approving public statements, and for monitoring the outcomes of these statements, include how and when they will involve the board in the process.

20.5. Safeguarding information. Management develops comprehensive protocols to safeguard material non-public information to protect the entity's reputation and value and maintain operational effectiveness; and establishes policies that define such information, providing examples and scenarios to promote employee understanding. Scenarios might include insider trading, the use of trading windows, and other preclearance requirements. Management implements access controls and monitoring systems to regulate the flow of sensitive information, restricting access to authorized personnel. Training programs and awareness initiatives enhance employee vigilance regarding the risks associated with the improper use or disclosure of information. Encryption, secure document storage, and controlled access to information systems are employed to protect confidential data. The board oversees these initiatives, promoting a culture of accountability and responsibility, and mandates regular reviews of policies and practices to maintain alignment with strategic objectives and evolving regulatory requirements.

Resilience



Resilience is an important aspect of corporate governance, helping entities withstand disruption, seize opportunities, adapt to change, and sustain long-term value. Leaders build resilience through proactive risk management, robust internal control, responsive compliance processes, and comprehensive monitoring—each contributing to stronger decision-making and sustained performance.

Risk management, compliance oversight, and control processes are critical enablers of effective governance: they provide insights into the health of the entity from a financial and operational perspective, alerting executive management to the areas of the business that need additional support or areas of untapped opportunity. A well-governed, resilient entity stays vigilant and aware, not only to mitigate downside risk but to capitalize on emerging opportunities, enhancing stakeholder confidence and helping the entity deliver on its purpose and create long-term value.

Deeper Insights

The Three Lines Model

Executive management establishes risk management structures by defining ownership, accountability, and action to identify, assess, manage, and monitor risk within the entity. The IIA's *Three Lines Model* provides a framework for executive management and the board to leverage in determining who is responsible for governance and risk management activities across the entity. Specifically, the first line has ownership for risk and control activities, while the second line is responsible for risk oversight, including providing support through expertise, monitoring, and, where necessary, challenging those in the first line on the management and mitigation of key risks. IA occupies the role of the third line, providing objective assurance and advisory services to assess the adequacy of the entity's governance, risk management, and internal control processes.

Principle 21
Manage and Oversee Risks and Opportunities

Executive management, with board input and oversight, establishes and maintains a risk management approach that aligns business processes and initiatives with the entity's strategic plan and risk appetite, enabling effective oversight and resiliency across the entity.

Enterprise risk management: *"The culture, capabilities, and practices, integrated with strategy-setting and performance, that organizations rely on to manage risk in creating, preserving, and realizing value."*

Source: COSO, *Enterprise Risk Management: Integrating with Strategy and Performance*, June 2017.

For information on how entities identify and manage risk to maximize value, refer to COSO's ERM Framework.

Points of Focus

21.1. Establish a risk management process. Executive management establishes and maintains a structured risk management process to identify, prioritize, manage, and monitor key risks that may impact the achievement of the entity's strategic, operational, financial, and compliance objectives. The process defines clear roles and responsibilities for risk ownership and includes formal mechanisms for risk assessment, response planning, and reporting. Risk information is updated regularly and communicated to executive management and the board. The risk management process is integrated into strategic planning and decision-making to support agility, protect value, and enhance performance. *For information on the broader alignment of risk and strategy, refer to COSO's ICIF and ERM Framework.*

21.2. Board oversight and allocation of risk. The board oversees the overall effectiveness of the entity's risk management approach and confirms that the approach enables and protects the achievement of strategic objectives. The board reviews and approves the entity's risk appetite and promotes alignment with overall business strategy. Risk oversight responsibilities are clearly defined and allocated across the full board and its committees based on subject matter and director expertise. While committees may oversee specific risk areas—such as cybersecurity, emerging technologies, or regulatory compliance—the full board retains oversight responsibility for strategic and enterprise-level risks. This structure enables integrated oversight and supports informed, timely responses to evolving risk exposures.

Leading-Edge Considerations

Risk Reporting to the Board

Management reports to the board on risk management at each board meeting. The board is also briefed on the progress of new initiatives and opportunities along with the evolving risks and associated rewards. Additionally, as part of an annual deep dive into the overall risk management process, management presents its process to the board for identifying and assessing the entity's key risks. These key risks (generally 10 to 15) are consistently part of the premeeting reading materials for the board and/or board committee(s).

21.3. Risk and opportunities aligned to strategy. Executive management incorporates risk and opportunity considerations into the strategic planning process to support long-term value creation. The board oversees executive management's approach to identifying, assessing, and responding to risks and opportunities that may impact strategy. Risks related to strategic initiatives are evaluated against the entity's defined risk appetite to confirm alignment and manage downside exposure and upside opportunity. Executive management develops and regularly updates risk mitigation plans for critical initiatives and, when evaluating risk scenarios, considers the potential for positive outcomes, such as innovation, market expansion, or operational improvements. This integration of risk and strategy supports agility, resilience, and competitive advantage. *For information on aligning risk management with strategic planning, refer to the Strategy Component.*

21.4. Appoint risk leadership and embed risk mindset. Executive management, with board input, designates an individual of appropriate stature and experience (or establishes a management-level risk committee) to oversee day-to-day risk management activities. This executive is responsible for coordinating risk practices across the entity, aggregating risk information, and providing a comprehensive risk profile to executive management and the board. Risk leadership promotes a culture in which risk awareness is integrated into strategic planning, operational decisions, and daily activities. The risk leader collaborates with business units to assign ownership of specific risks and to challenge assumptions and decisions that may impact the entity's risk profile. This structure enables a consistent and coordinated approach to risk management that aligns with the entity's strategy and risk appetite.

Leading-Edge Considerations

Increasing Demand for Chief Risk Officers

Increasingly, entities of all sizes and structures are using a chief risk officer role or other senior executive of equivalent stature and experience to oversee the risk management program or to coordinate risk management across the entity. This individual may report directly to the CEO or another member of executive management, with direct access to the board or a designated board committee.

"Organizations are now pinpointing an individual to lead the organization's risk management process in about one-half of the organizations surveyed, suggesting greater recognition that leadership is required if risk oversight is to be value adding."

Source: NC State University, AICPA and CIMA, *Global State of Enterprise Risk Oversight*, October 2024.

21.5. Monitor and report risks to support oversight. Executive management maintains processes to monitor key risks and deliver timely risk information to the board. Risk reporting includes updates on key risks, risk exposure, key risk indicators, and progress against mitigation plans, aligned with the entity's defined risk appetite and tolerance levels. The board reviews these reports regularly to assess whether the entity is effectively managing and monitoring risks, and to stay informed on emerging risks and strategic opportunities. To supplement management's reporting, IA provides independent assessments of the entity's risk management activities. The board defines its expectations regarding the type, frequency, and format of risk reporting and communicates these requirements to management to support effective oversight.

Deeper Insights

Advanced Risk Monitoring Analytics

Risk-sensing analytics are critical for enabling an entity to move from reactive risk management to a proactive, intelligence-driven approach. These analytics harness advanced technologies—such as artificial intelligence, machine learning, and natural language processing—to detect emerging risks and patterns from a wide range of structured and unstructured data sources, including social media, news feeds, regulatory updates, and internal systems.

21.6 Manage risks associated with technology. Executive management, with oversight from the board, establishes governance structures to assess and manage risks related to technology. These structures may include cross-functional risk committees, technology governance frameworks, and dynamic risk assessment processes. Management evaluates the potential impacts of disruptive technologies on strategy, operations, and risk exposure, implementing robust policies and controls to address data integrity, cybersecurity, and third-party technology services. The board monitors the effectiveness of technology oversight and confirms that the entity remains agile and resilient in the face of rapid innovation and digital disruption.

Principle 22
Manage Compliance Responsibilities

Executive management, with board oversight, develops robust, transparent, and responsive compliance processes that define ownership and accountability for legal and policy compliance, allow independent access to the board, and safeguard employees from retaliation when they report concerns.

Points of Focus

22.1. Establish a structured compliance program. Executive management establishes and maintains a compliance program that is tailored to the entity's risk profile and regulatory environment. Compliance ownership is assigned to individuals or teams with the appropriate expertise to design, implement, and manage controls to address compliance requirements. Due to the volume and complexity of legal and regulatory requirements to which entities are subject, discrete compliance programs are often established to monitor and address specific compliance risks. These programs—such as those addressing environmental impact, safety, cybersecurity, data privacy, or SOX—are integrated into business operations and are coordinated and aligned with the central compliance program. Compliance programs are reinforced through policies, training, and monitoring activities to support consistent execution and awareness. Management conducts periodic compliance risk assessments, develops remediation plans for identified gaps, and tracks progress through resolution. The board receives regular updates on program effectiveness, emerging risks, and key compliance matters.

22.2. Appoint compliance leadership and define accountability. Executive management is accountable for the overall effectiveness of the entity's compliance program and appoints a chief compliance officer (CCO), or equivalent, to lead its execution. With the authority and independence to oversee compliance activities across the entity, the CCO regularly updates the board or designated committee on key issues, risks, and program performance. The CCO maintains alignment between compliance efforts, strategic objectives, and legal requirements. Where applicable, compliance functions across business units report into a centralized program to support consistency, coordination, and a unified approach to managing compliance risk.

22.3. Implement a compliance change management process. Executive management maintains a structured process to identify, assess, and respond to new or evolving compliance requirements across jurisdictions. This includes tracking changes in international, federal, and state laws, as well as updates to industry requirements or internal business operations that may trigger new obligations. Compliance requirements are analyzed for impact, and corresponding updates are made to policies, controls, and monitoring activities. Significant developments are communicated to the board, along with management's response plans. This change management process allows the compliance program to remain current, responsive, and aligned with requirements.

Deeper Insights

Intelligent Governance, Risk, and Compliance

GRC platforms are essential tools that enable entities to manage risk, promote regulatory compliance, and uphold strong governance practices in an integrated, efficient, and scalable way. As legal requirements grow more complex and risk environments more dynamic, GRC platforms provide a centralized system for tracking policies, assessing risks, monitoring controls, managing incidents, and reporting to stakeholders. The integration with AI enhances the capabilities of GRC platforms through tools such as AI-driven regulatory intelligence, virtual GRC chatbots, and scenario generation and simulations.

22.4. Communicate and reinforce compliance expectations. Executive management reinforces a culture of compliance by setting an ethical tone at the top and integrating compliance expectations into daily operations. These expectations are communicated through formal corporate policies, procedures, and internal control, with compliance messaging supported by recurring and targeted training, employee attestations, and access to a whistleblower hotline. Expectations are further reinforced through additional channels such as town halls, entity-wide emails, and executive management communications. The board monitors ongoing compliance through performance indicators and confidential reporting mechanisms, using these insights to challenge management and strengthen the effectiveness of the compliance program. Consequences for non-compliance are clearly defined and consistently communicated. *For information on the influence of culture and ethical behavior on the entity and the related compliance policies, refer to the Culture Component.*

Deeper Insights

Common Compliance Policies

- Code of ethics and conduct
- Conflict of interest
- Whistleblower
- Equal employment opportunity
- Workplace health and safety
- Anti-harassment/discrimination
- Data privacy/information security
- Anti-corruption
- Insider trading

22.5. Investigate incidents and enforce compliance consistently. Executive management maintains documented processes to manage, track, and investigate allegations or instances of non-compliance with established guidelines or policies. The entity conducts investigations in accordance with policies that are applied consistently, regardless of the individual's role or level. When violations are identified, management determines and implements appropriate remedial or disciplinary actions. Significant compliance matters are escalated to the board, with complaints related to accounting or financial reporting directed to the audit committee. These processes support accountability, promote fairness, and reinforce the entity's commitment to ethical conduct.

Deeper Insights

Fraud Risk Management

Fraud risk management is critical to the proactive prevention, detection, and correction of fraud at the entity. Management establishes policies and procedures so that employees understand their roles in preventing, detecting, and reporting fraud. Programs often utilize advanced data analytics and monitoring tools to identify unusual patterns and potentially fraudulent activities in real time. These programs also emphasize the importance of a strong ethical culture, promoting transparency and accountability at all organizational levels through regular training and awareness initiatives. *For information on how entities can establish, monitor, and evaluate fraud risk through a formal fraud management program, refer to COSO's Fraud Risk Management Guide: Second Edition.*

Principle 23
Establish and Evaluate Internal Control

The board exercises oversight of the development and performance of internal control, and executive management designs and monitors a system of internal control that supports risk mitigation toward the achievement of objectives.

Internal control: *"Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."*

Source: COSO, *Internal Control — Integrated Framework*, May 2013.

Points of Focus

23.1. Design and manage a system of internal control. Executive management designs and implements a recognized system of internal control (e.g., COSO's ICIF) to increase the likelihood the entity can achieve its strategic, operational, financial, and compliance objectives. Controls are aligned with ethical standards, legal requirements, and the entity's risk profile, and are integrated into relevant policies and procedures to confirm that business processes operate as intended. Management utilizes a variety of controls—including compliance, operational, and reporting—to mitigate risks across the entity. These controls are periodically assessed for effectiveness and updated as needed to reflect changes in strategy or the risk environment. The board and audit committee review key control policies to support oversight responsibilities. Management establishes monitoring mechanisms to detect risk events at the operational level and assess control performance on an ongoing basis. *For information on designing and implementing a system of internal control, refer to COSO's ICIF.*

23.2. Document and implement policies and controls. Executive management develops and maintains corporate policies that define the internal rules, guidelines, and procedures necessary to support the entity's strategic, financial, operational, and compliance objectives. These policies establish a foundation for designing and documenting internal control across the entity. Management maintains a structured process for policy governance, including creation, review, approval, training, implementation, and oversight. Clear ownership and accountability are assigned at the control level and throughout executive management to support consistent execution and oversight. Policies of critical importance—such as the entity's code of ethics and conduct and the conflict-of-interest policy—are typically reviewed and approved by the board and formally documented to reinforce their authority. *For information on document retention policies, refer to the Communication Component. For information on the development of policies and procedures, refer to COSO's ICIF.*

Deeper Insights

Robotic Process Automation

Robotic process automation (RPA) transforms how entities handle high-volume, repetitive tasks by enabling faster, more accurate execution of routine processes. By automating structured workflows such as data entry, transaction processing, and report generation, RPA reduces manual effort, mitigates the risk of human error, and boosts overall efficiency. Well-designed RPA solutions can incorporate built-in controls such as access restrictions, audit trails, and exception-handling mechanisms, enhancing consistency and compliance and enabling effective monitoring over these processes. *For information on how to establish controls over RPA, refer to COSO's Achieving Effective Internal Control Over Robotic Process Automation.*

23.3. Leverage IA for assurance and insights. IA, as the third line, provides independent and objective assurance to the board and executive management on the effectiveness of risk management, internal control, and governance processes. IA delivers data-driven analysis across strategic, operational, financial, and compliance risk areas, offering insights into the control environment and alignment with legal requirements and industry practices. Beyond traditional financial audits, IA conducts governance assessments, culture reviews, and operational evaluations that inform decision-making and highlight opportunities for improvement. Through regular testing and reporting, IA helps identify gaps or emerging issues, supporting proactive risk mitigation and continuous enhancement of the control environment.

23.4. Engage external providers for select control assessments. Executive management may engage external auditors or third-party providers when specialized expertise is required, to perform targeted assessments of select internal control. These assessments may focus on financial reporting, cybersecurity, data privacy, sustainability, compliance, or operational performance, depending on the entity's risk profile and legal requirements. External providers bring subject-matter expertise and independent perspective, helping to identify potential threats, assess the effectiveness of control measures, and recommend enhancements. Insights from these evaluations support informed decision-making, strengthen the control environment, and assist in prioritizing and mitigating risks across the entity.

Principle 24
Monitor Governance Effectiveness

Executive management, with board oversight, routinely monitors governance effectiveness, evaluating internal and external changes, identifying improvement opportunities, and refining governance processes to support sound decision-making, achieve strategic objectives, and create long-term value.

Points of Focus

24.1. Maintain an integrated monitoring infrastructure. Executive management develops and maintains an integrated monitoring infrastructure that consolidates data related to risk, strategy, compliance, controls, performance, and governance into a centralized process. This infrastructure provides timely and transparent insights to executive management and the board, enabling early identification of emerging risks, potential anomalies, and strategic opportunities. Management establishes defined processes to track key governance areas—oversight, strategy, culture, people, communication, and resilience—with clear ownership, performance indicators, and reporting protocols. Cross-functional collaboration is promoted to break down silos, strengthen accountability, and accelerate the resolution of material issues.

24.2. Monitor governance effectiveness and oversight practices. Executive management and the board monitor the effectiveness of corporate governance by regularly reviewing indicators of sound governance. Across the six core Components of corporate governance, indicators are monitored and included in relevant reporting and can include items such as board operations, executive compensation, compliance practices, and shareholder engagement. Management uses internal audits, performance evaluations, and independent assessments to evaluate areas such as conflicts of interest, leadership succession, board composition, risk management and alignment of risk appetite with strategy, stakeholder communications, and corporate culture. Open communication channels support early detection and response to governance risks. Regular evaluations—guided by internal reviews, stakeholder feedback, and external benchmarks—help identify gaps, track progress, and drive continuous improvement across the governance framework.

Leading-Edge Considerations

Internal Audit's Role in Assessing Corporate Governance

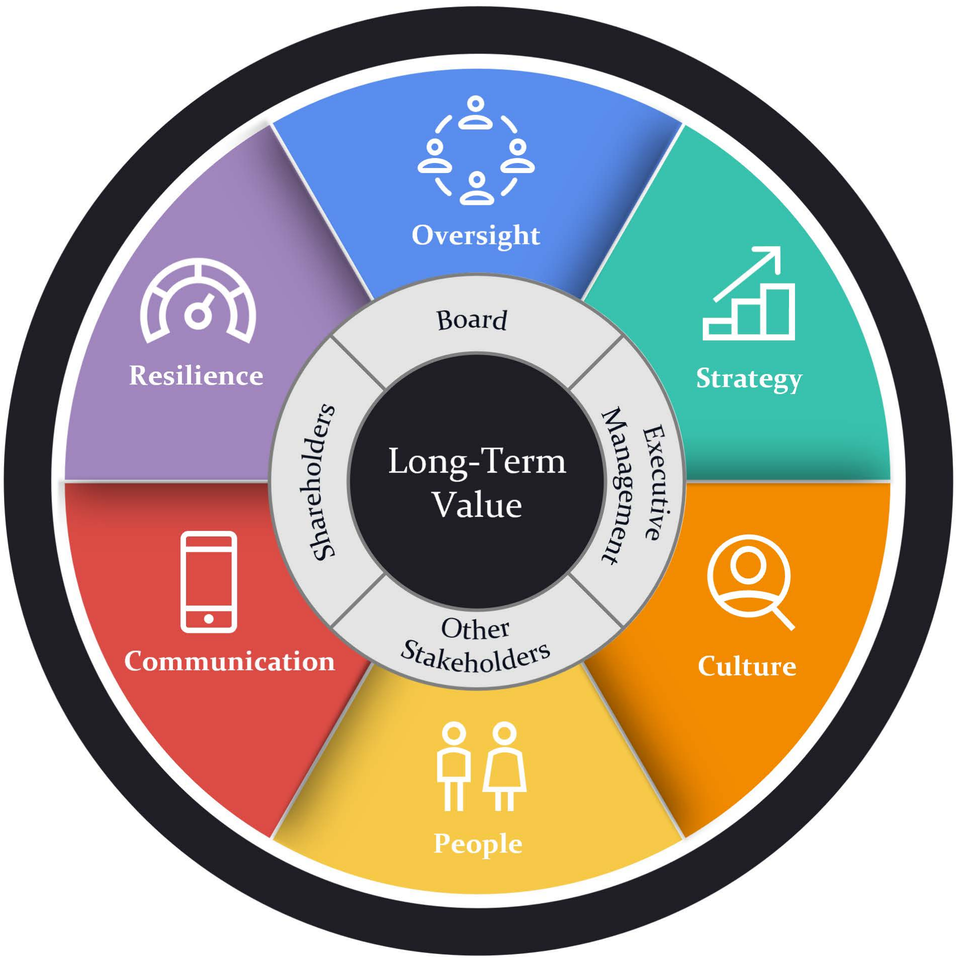
Entities can leverage IA to perform corporate governance assessments to evaluate the effectiveness of governance structures and processes compared to leading practices. Specifically, IA can evaluate board composition, structure, and assessment processes, as well as the effectiveness of executive management's strategy-setting processes and oversight. In addition, IA may perform assessments of culture and incentive programs to determine the alignment of culture with strategy, values, and ethics, and evaluate the reliability and transparency of communications with stakeholders.

24.3. Report monitoring results and reinforce continuous improvement. Executive management establishes a structured cadence and reporting format to communicate monitoring results to the board and relevant committees across all governance elements. These reports include analysis of trends, regulatory developments, stakeholder expectations, and recommended updates to the entity's policies, controls, and practices. The board and management use these insights to inform strategic decision-making, enhance oversight, and confirm alignment with the entity's purpose, core values, and long-term strategic goals. As part of its commitment to continuous improvement, the entity regularly reviews the effectiveness of its governance systems to identify gaps and opportunities for refinement. This process supports adaptability in the face of disruption and promotes transparency, accountability, and ethical leadership.

Conclusion

Corporate governance is not a static structure but a dynamic, evolving integrated system. When executed effectively, it enables strategy, fosters trust, supports resilience, and creates long-term value for shareholders and stakeholders alike. The integrated application of the six Components—Oversight, Strategy, Culture, People, Communication, and Resilience—provides a foundation for entities to strengthen corporate governance in both principle and practice. By aligning corporate governance with the realities of today's complex business environment, entities can lead with purpose, respond with agility, and position themselves for success in achieving long-term value.

COSO's Corporate Governance Framework



Appendix: Corporate Governance Framework Glossary

To understand the CGF, it is essential to understand key terms in the context of the CGF structure and how they are used relative to the CGF.

Corporate Governance Framework Key Terms

- **Corporate Governance Framework (or CGF):** The six Components and related Principles, Points of Focus, Deeper Insights, and Leading-Edge Considerations, consisting of (1) Oversight, (2) Strategy, (3) Culture, (4) People, (5) Communication, and (6) Resilience.
- **Component:** One of the six foundational areas that collectively form the foundation of effective corporate governance as defined in the CGF.
- **Principles:** High-level objectives embedded within each of the CGF's six Components. They articulate essential governance expectations and provide a flexible foundation that can be adapted to an entity's specific needs and circumstances.
- **Points of Focus:** Each Principle is supported by Points of Focus that expand on how entities may choose to achieve the Principles. Points of Focus assist the entity in understanding how to put the related Principle into action or in assessing current-state effectiveness tailored to an entity's unique circumstances.
- **Deeper Insights:** Used to expand upon Points of Focus, offering the user additional depth of understanding as it relates to a leading practice.
- **Leading-Edge Considerations:** Used to highlight more advanced governance considerations that go above and beyond leading practice.

Other Terms

- **Accountability:** The obligation of directors, executive management, and employees to fulfill their responsibilities, report transparently on outcomes, and accept consequences for performance aligned with the entity's strategic objectives and core values.
- **Artificial intelligence (or AI):** AI, as defined by the U.S. National Institute of Standards and Technology (NIST), refers to "a machine-based system that can, for a given set of objectives, generate outputs such as predictions, recommendations, or decisions influencing real or virtual environments."
- **Board (or board of directors):** The governing body appointed or elected to oversee management, provide strategic guidance, monitor performance, and uphold accountability aligned with the entity's purpose, core values, and long-term objectives.
- **Board leadership:** The individual or individuals, such as the board chair, lead independent director or committee chair(s), responsible for guiding the board's activities, fostering collaboration, promoting effective governance practices, and serving as a liaison between the board and management.
- **Business judgment rule:** A legal principle that protects directors from liability for decisions made in good faith, with due care, and in the entity's best interests. It presumes that directors act on an informed basis, without conflicts of interest, and within their authority, shielding them from personal liability as long as their decisions are reasonable and made with honest judgment.

- **Business model:** The fundamental approach an entity uses to create, deliver, and capture value. It encompasses the entity's core operations, revenue streams, customer relationships, and key resources, reflecting how it sustains profitability and competitiveness.
- **Capital allocation:** The process of distributing financial resources to support an entity's strategy, investment priorities, and long-term value creation. It involves evaluating funding needs, optimizing the capital structure, and determining how to deploy capital across initiatives such as operations, growth investments, and shareholder returns.
- **Code of ethics and conduct:** A formal set of principles and expectations that guide ethical behavior, integrity, and responsible decision-making within an entity. They establish standards for professional conduct, inclusion, and accountability, reinforcing the organization's commitment to ethical business practices and aligning culture with strategic objectives.
- **Compliance:** The process of confirming that an entity adheres to all applicable laws, rules, regulations, standards, ethical practices, and corporate policies relevant to its business operations.
- **Conflicts of interest:** Refers to any personal, professional, or financial interest that could impair, or appear to impair, a director's or executive's ability to act objectively and in the entity's best interests.
- **Control:** (1) As a noun (i.e., existence of a control), a policy or procedure that is part of internal control. (2) As a verb (i.e., to control), to establish or implement a policy or procedure that affects a principle.
- **Core values:** The ethical and cultural foundation of an organization, shaping behavior, decision-making, and risk awareness at all levels. Core values are essential for setting the tone at the top, guiding ethical conduct, and aligning risk, control, and performance with the organization's purpose.
- **Corporate governance:** Corporate governance involves the oversight and processes primarily carried out by an informed board and management team to steer an entity toward executing its strategies and goals, while maximizing long-term shareholder value in an ethical manner and within the relevant legal and regulatory environment.
- **Corporate governance guidelines:** A set of principles and practices adopted by the board to define its roles, responsibilities, structure, and operating procedures. These guidelines support effective oversight by aligning board activities with regulatory requirements, strategic priorities, and stakeholder expectations.
- **Corporation:** A legal entity that is separate and distinct from its owners, with its own rights and responsibilities, created under law to conduct business or other activities.
- **Culture:** The set of shared values, attitudes, and behaviors shaped by leadership that influences how individuals act with integrity, make decisions, and respond to risk. It reflects the organization's ethical foundation and risk awareness, guiding consistent behavior in support of strategy and objectives.
- **Delegation-of-authority policy:** A formal policy that defines decision-making powers within an entity, specifying which roles have the authority to make decisions independently, which require collaboration or approval, and under what conditions authority can be delegated. It includes monetary limits, decision thresholds, and escalation protocols, helping align the entity's strategy and governance structure.

- **Director:** An individual appointed or elected to serve on the board of directors, responsible for overseeing management, guiding strategy, and upholding accountability in alignment with the entity's purpose, values, and long-term objectives.
- **Disclosures:** Information that an entity publicly shares to provide transparency on its operations, financial performance, governance, and strategic direction. Disclosures can be mandatory, such as regulatory filings and financial reports, or voluntary, such as sustainability reports and board qualifications.
- **Employees:** Workers who are employed by a U.S. legal entity as W-2 workers, versus 1099 contractors or vendor-provided talent.
- **Enterprise risk management (or ERM):** The culture, capabilities, and practices, integrated with strategy-setting and its performance, on which organizations rely to manage risk in creating, preserving, and realizing value.
- **Entity:** Any for-profit, not-for-profit, or governmental body. An entity may be publicly listed, privately owned, owned through a cooperative structure, or any other legal structure.
- **Equity law:** A body of legal principles developed alongside common law to promote fairness and justice in cases where strict application of statutory law would result in an unfair outcome. Rooted in judicial precedents, equity law provides remedies such as injunctions, specific performance, and fiduciary obligations, including the duties of care, loyalty, and good faith that govern corporate directors and other fiduciaries.
- **Ethical behavior:** The consistent practice of acting with integrity, fairness, and respect, in line with the entity's core values and expectations.
- **Executive management:** The most senior-level executives (C-suite), such as the CEO, CFO, and chief operating officer, responsible for executing strategic plans, making high-level operational decisions, and achieving entity success and profitability. They engage with the board of directors and shareholders to uphold governance best practices, maintain ethical standards, fulfill fiduciary duties, and establish a strong corporate culture from the top.
- **Executive sessions:** Private meetings of the board or its committees, held without management present, to facilitate open discussions on sensitive matters such as CEO performance, succession planning, board effectiveness, legal and compliance issues, and auditor discussions.
- **Fiduciary duties:** Legal and ethical obligations to act in the best interests of another party, typically associated with fiduciary duties such as the duty of care, duty of loyalty, and the obligation to act in good faith.
- **Financial statements:** Typically refers to balance sheet, income statement, cash flow statement, statement of changes in equity, etc.
- **Fraud:** Any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.
- **Generative AI (or GenAI):** A system of algorithms or computer processes that can create novel output in text, images, or other media based on user prompts. These systems are created by programmers who train them on large sets of data. The AI learns by finding patterns in the data and can then provide novel outputs to users' queries based on its findings. GenAI systems are distinguished from other AI systems by their ability to create novel output.

- **Goals:** Broad, long-term outcomes the entity aims to achieve, reflecting its strategic vision and overall direction.
- **Independent (or independence):** The state of being free from conflicts of interest, undue influence, or bias, enabling objective judgment in decision-making processes.
- **Independent directors:** Board members who have no material relationship with the entity that could compromise their ability to exercise objective judgment. Their independence is defined by federal and state laws, listing exchange rules (such as NYSE and Nasdaq), and corporate governance best practices.
- **Integrity:** The quality or state of being of sound moral principle; uprightness, honesty, and sincerity; the desire to do the right thing, to profess and live up to a set of values and expectations.
- **Internal audit (or IA):** An independent, objective assurance and advisory service designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. *For information on the standards and principles which govern internal audit, refer to the IIA's Global Internal Audit Standards.*
- **Internal control:** A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.
- **Investors:** Individuals or entities that allocate capital to an organization with the expectation of generating financial returns.
- **Leaders:** Individuals responsible for guiding and inspiring others toward achieving entity goals, shaping culture, and driving strategic success. Leaders can include board, executive management, and management.
- **Management:** Beyond the C-suite, individuals overseeing the employees who are executing daily operations across varying entity levels and functional or business lines. Management is responsible for coordinating tasks to achieve organizational goals through planning, organizing, leading, executing, and then reporting to executive management.
- **Mandatory retirement age:** A policy that sets a predetermined age at which directors are required to step down from the board, used as a mechanism to promote board refreshment and turnover.
- **Objectives:** Specific, measurable, and time-bound targets that support the achievement of broader goals.
- **Operating model:** The structure that defines how an entity organizes its people, processes, technology, and resources to execute its strategy. It establishes roles, responsibilities, reporting lines, and decision-making authority, adapting as needed to align with strategic goals and market conditions.
- **Organizational structure:** The manner in which authority, roles, responsibilities, and reporting lines are clearly established throughout an entity to effectively support strategy, manage risks, and enable robust internal control.
- **Overboarding:** A situation in which a director serves on an excessive number of boards, potentially limiting their ability to dedicate sufficient time, attention, and oversight to each entity.

- **Oversight:** The process by which the board and management monitor, guide, and evaluate the entity's operations, risks, and performance to promote accountability, ethical conduct, and alignment with strategic objectives.
- **Performance management:** The measurement of efforts to achieve or exceed the strategy and business objectives.
- **Purpose:** An entity's fundamental reason for being, guiding strategy, decision-making, and culture.
- **Risk:** The possibility that events will occur and affect the achievement of strategy and business objectives. Risks (plural) refers to one or more potential events that may affect the achievement of objectives; risk (singular) refers to all potential events collectively that may affect the achievement of objectives.
- **Risk appetite:** The types and amount of risk, on a broad level, that an organization is willing to accept in pursuit of strategy.
- **Risk management:** The policies, procedures, and control processes that an entity establishes to identify, assess, monitor, and report risks, confirming risks are managed in a way that helps the entity achieve its objectives.
- **Risk profile:** A composite view of the risk assumed at a particular level of the entity, or aspect of the business that positions management to consider the types, severity, and interdependencies of risks, and how they may affect performance relative to the strategy and business objectives.
- **Shareholders:** Individuals or entities that own shares in a corporation, granting them ownership interest and certain rights, such as voting on major corporate decisions, receiving dividends, and reviewing financial performance.
- **Shareholder engagement:** Refers to the direct and indirect communication between an entity and its shareholders through methods such as one-on-one meetings, group presentations, conferences, and proxy voting to address concerns, align interests, and support long-term value creation.
- **Shareholder rights:** The entitlements granted to shareholders, typically defined by law or the corporation's governing documents, including the right to vote on major decisions, receive dividends, and access financial reports.
- **Skills matrix:** A tool the board uses to assess and map its members' collective competencies, expertise, and experience to help align with the entity's strategic needs.
- **Stakeholders:** Individuals or groups, either internal or external, that may impact or be impacted by the entity's operations, business environment, reputation, brand, and trust. Internal stakeholders include parties working within the entity, such as employees, management, and the board. External stakeholders are those who are not directly part of the company but are affected by or have an interest in its business operations and financial performance, such as shareholders, regulators, customers, vendors, community members, and business partners.
- **Strategy:** A set of informed, sometimes difficult choices an entity makes about how to compete and create long-term value, guided by the entity's unique current and future advantages. It defines where and how the entity will focus its resources, respond to disruption, and differentiate itself in a constantly evolving environment in alignment with its purpose and core values.

- **Strategic plan:** A formal, multi-year roadmap developed by executive management, with board input and approval, that defines the entity's long-term goals, competitive positioning, and key initiatives. It outlines how resources will be allocated, risks managed, and opportunities leveraged to achieve sustainable growth and value creation.
- **Supermajority:** A threshold higher than a simple majority, often defined as two-thirds or more of a group, required for certain decisions or governance standards.
- **Sustainability:** The ability of an entity to create long-term value by integrating economic, environmental, and social considerations into its strategy and operations.
- **Talent:** Individual people or pools of skilled people within the workforce.
- **Term limits:** A policy that sets a maximum length of service for board members to promote board refreshment, independence, and diversity of perspectives.
- **Tone at the top:** The ethical climate, culture, and values established by the board and executive management, which influence the organization's behavior and decision-making at all levels.
- **Total rewards:** A comprehensive program that encompasses all forms of compensation, benefits, and development opportunities that an entity offers to attract, retain, and engage its workforce.
- **Transparency:** The practice of providing stakeholders with clear, accurate, and accessible information about the entity's operations, performance, and governance.
- **Value:** The tangible and intangible benefits an entity generates through its operations, assets, and relationships, including financial performance, brand equity, intellectual property, customer loyalty, and talent.
- **Value creation:** The process by which an entity generates long-term economic, social, and strategic benefits for its stakeholders through effective decision-making, resource allocation, and sustainable growth initiatives.
- **Whistleblower:** An individual, often an employee, who reports suspected misconduct, unethical behavior, or violations of laws or policies within an organization.
- **Workforce:** The entirety of workers, on or off the balance sheet, who deliver outcomes or goals.

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