What does Benjamin Franklin have to do with organizational Governance?

It seems that quite often "Governance" – a lofty term – is equated only with "Compliance" and more specifically compliance with government regulations for financial assertions.

But why is it so? Should an organization ignore how effectively it meets customer requirements or not pay heed to whether the organization is run efficiently to minimize costs? Should these two elements – effectiveness and efficiency – not be part of Governance? Why should they be sacrificed at the altar of Governance to only achieve Compliance?

Furthermore, why should Compliance be restricted to financial assertions only? If a mining company causes a major environmental disaster due to lax attention to environmental laws/regulations and is forced to close a facility (at worst) or spend many millions of dollars (at best) to bring the environment back to pristine condition (hopefully) and still achieves Compliance for financial assertions, is that good Governance?

Of course it is not.

Superior Governance requires meeting customer requirements effectively and running businesses efficiently while complying with all relevant regulations. Governance therefore has three elements: Effectiveness, Efficiency and Compliance.

How does one define "Governance"?

Out of numerous definitions perhaps the most authoritative functional definition of corporate governance is provided by Organisation for Economic Co-operation and Development (OECD):

"Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance."

Who are and how are they interested in Governance?

Basically there are three groups who have an interest in how Governance is practiced in an organization. Each of the three groups has a different perception and varying expectation of organizational Governance.

Regulators – are typically from some level of government. Regardless of how effectively or efficiently an organization is run, the Regulators are only satisfied when ***Compliance*** of relevant acts or regulations are achieved.

Customers – are recipients of products and/or services provided by an organization and are primarily interested in the ***Effectiveness*** of Governance. Their main concern is how effectively the price and quality (including timeliness) of needed products or services are being met. The Customers may be interested in knowing if their vendor organization is meeting regulatory compliance, but it is not their primary concern. Customers can be internal or external.

Stakeholders – are shareholders (or owners, trustees, etc.) and employees of an organization who are concerned with all aspects of organizational Governance: Efficiency, Effectiveness and Compliance. They want to ensure that products and services created not only meet customer price and quality specifications while meeting regulatory compliance, but that the operational efficiency is addressed as well.

Stakeholders are the custodians of Governance in an organization.

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What are the Governance elements and related Frameworks?

Effectiveness is addressed by attaining Quality. Quality is essentially meeting customer specs that include explicit stipulation of performance metrics for the product or service quality (including timely delivery). The ability to meet customer expectations (aka quality) determines how effective an organization is. Adopting a framework such as ISO 9000 drives effectiveness and companies often get certification on the same to differentiate themselves in competitive environments.

Efficiency seeks to maximize the output for a given input. Governance also needs to be sustained and, where possible, improved. Business requirements change with time and this will force re-evaluation of the Governance framework to sustain it. The concept of efficiency to improve is addressed by methodologies such as Continuous Improvement and Six Sigma that have been practiced for a long time.

Compliance has gained particularly high visibility in view of well-known financial fiascos in the last decade. Adopting frameworks such as COSO (*The Committee of Sponsoring Organizations of the Treadway Commission*) for financial controls and COBIT (*Control Objectives for Information and related Technology*) for allied IT controls will allow financial disclosures to attain regulatory compliance. ISO also provides frameworks for complying with non-financial laws and regulations.

The varying interests and expectations of the three parties – Regulators, Customers and Stakeholders – in the three Governance elements can be summarized as shown in Exhibit I:

Exhibit I

	Efficiency	Effectiveness	Compliance
Regulators			✓
Customers		✓	?*
Stakeholders	✓	✓	✓
	Six Sigma	ISO	COSO COBIT

***Possibly**

⟵ Potential Applicable Frameworks ⟶

How does one practice superior Governance?

Governance is a “system” which also spells out the policies and procedures for making decisions on “corporate affairs”. The corporate affairs are conducted by various corporate ***functions***. These functions always interact among themselves as well as with external organizations through business ***processes***. No corporate function is an island and conducts all of its affairs in isolation. Business processes typically span functional silos. Business processes therefore form the foundation of such a “system”. If these processes are set up in a ***Process Management Environment*** with appropriate “policies and procedures” so that they are running smoothly, making sound decisions on corporate affairs become simple and will inevitably lead to superior Governance.

Since Governance also needs to address Effectiveness, Efficiency and Compliance, these business processes also underpin the same. Moreover, the relevant applicable framework for each – as shown in Exhibit I – is very much process oriented. One may therefore describe the Governance framework in a manner depicted in Exhibit II.

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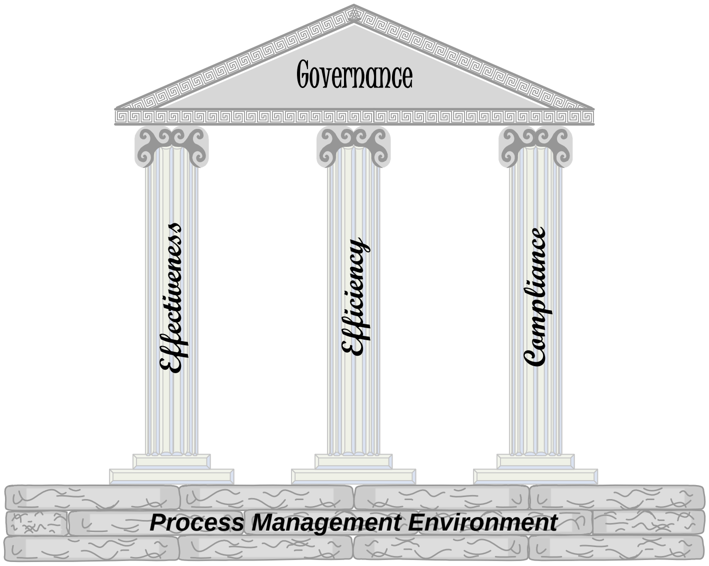
Exhibit II



Ultimately a solid foundation of ***Process Management Environment*** is a must to achieve superior organizational Governance.

What is a Process Management Environment?

An environment to manage business processes require that the processes be:

- Prioritized – to focus on key business processes;
- Aligned – by ensuring that the process objectives address business needs;
- Streamlined – through adoption of best practices;
- Mapped – through mapping of tasks for workflows and role assignments;
- Verified – by various organizational functions to address their business objectives;
- Owned – by assigning formal roles for process accountability;
- Documented – for consistency of process implementation throughout the organization;
- Measured – to ensure that the process is effective and efficient while meeting compliance;
- Controlled – to ensure that process performances are according to expectations; and,
- Improved – to attain highest possible efficiency and to address changing business conditions.

Even though Governance is much more than business process management, such an environment underpins overall Governance.

The deployment of a framework to build a ***Process Management Environment*** should follow a well established methodology such as Six Sigma. Similar process environments also exist for ISO or COSO/COBIT frameworks and even here Six Sigma principles can be adopted for the identified processes.

This article will not delve into Six Sigma details. Six Sigma has two main areas: DMAIC (Design, Measure, Analyze, Improve and Control) for existing processes and DFSS (Design for Six Sigma) for new processes.

No process framework should be deployed without creating a formal support infrastructure for the framework. A support infrastructure essentially includes a number of well-defined roles (and how they interact); such as the champions, process owners and others depending on the nature of the framework and the organization. While the roles are not necessarily dedicated, they have to be formal. The support infrastructure also has to be guided by prescribed policies.

Such an infrastructure is created only when there is a formal and no-nonsense commitment from the uppermost levels of management.

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The commitment is absolutely needed to not only aid the initial deployment of a framework but also to sustain the benefits gained. Without a committed support infrastructure, any framework will wither and die eventually. ***Such commitment also implies that necessary accountabilities for process performances are in place along with firm enforcements of such accountabilities.***

It is not necessary to deploy all frameworks to their fullest extent. Business needs will dictate the nature of deployment. However, certain principles to deploy and sustain will have to be in place – such as the requirement for support infrastructure mentioned above.

How does one know superior Governance has been attained?

Governance elements need appropriate metrics that are collected and monitored to ensure that these elements are indeed effective and performing according to predefined expectations. Metrics need to be defined for each framework (the Governance elements) as well as for the processes themselves. A framework metric can be its maturity level. There are well-accepted assessment procedures to determine these. The maturity levels of a framework deployment in an organization can be graded in a manner similar to what is practiced by Software Engineering Institute's Capability Maturity Model (CMM) or COBIT regarding related processes. They are:

Level 1 Initial – processes are ad-hoc in the organization;
Level 2 Repeatable – repeat by leveraging previous successes;
Level 3 Defined – apply consistency through adoption of standardized processes;
Level 4 Measured – affect effective process control using precise measurements; and,
Level 5 Optimized – continuously improve process and address changing conditions.

Process metrics are crucial to determine if the processes are in control. The ***3M principle*** (Measure-to-Monitor-to-Manage) applies here. ***A process that is not monitored can not be managed, and one has to measure to monitor process health.***

Continuous improvement is NOT possible without appropriate metrics.

A process metric is usually called a KPI (Key Performance Indicator) to denote the process health. However, a KPI could be an "effect" (a symptom) that has an underlying "cause". Only prior analyses can uncover "causes". If an "effect" KPI shows that it is out of whack, a true corrective action can only be taken by addressing the underlying "causes". Also, prior knowledge of an underlying "cause" will also allow one to put in place preventative controls.

The framework assessments will have to evaluate processes as well since processes underpin frameworks (and therefore related Governance elements). The overall Governance assessment itself will also require the assessment results of the three individual elements.

Perhaps every public corporation (possibly also not-for-profit organizations) web site should publish key process KPIs to let investors know what the organizational Governance is like. If an investor looks at year-end financial numbers only, trying to figure out the company's health is akin to driving a car by looking into rear view mirror only.

Only operational governance is covered here. The long term viability of an organization also requires focus on other factors such as strategy and innovation. Though these factors are not covered here specifically, some of the elements discussed in this white paper do apply to them as well.

It is all about Benjamin Franklin

Benjamin Franklin had said very famously – *"A little neglect may breed mischief ...for want of a nail, the shoe was lost; for want of a shoe the horse was lost; and for want of a horse the rider was lost".* Regardless of their nature, ***ALL*** business processes ultimately underpin organizational Governance. Indifference to process management will only invite crisis. Conversely, the thought leaders in progressive organizations focus on and leverage a ***Process Management Environment*** to attain superior Governance, resulting in consistent superior performance all around.

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