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Corporate governance: A blueprint for managing a business

Using the Corporate Governance Cycle to run a more efficient business.

What do CEOs do when they get to work? After all, there's no one to hold them accountable on a day-to-day basis; they can do anything they think is appropriate.

For some leaders it's the day's "to do list" they tackle first. Others jump into the current day's firefighting. Or there might not be a plan at all. They just see what pops up.

Many of the CEOs I've talked to and worked with use a version of one of these approaches. At the end of the day they may feel they have contributed, or wind up exhausted with little to show for their effort. There's no consistency in moving a company forward, yet all are dedicated.

What's missing is an overall game plan within which the CEO's responsibilities can be executed; a game plan that creates a high probability that the company's goals will be achieved.

I call this game plan Corporate Governance. It contains a series of five connected events: setting strategy; budgeting; operating plans; corporate initiative; and quarterly reviews.

The cycle combines planning, forecasting, understanding variances, and a relentless drive for improvements. Most importantly it demands thinking and communicating. These are two leadership activities that arebecoming obsolete as leaders are more likely to react and transmit messages instead.

The cycle is more easily understood by starting with setting strategy even though this occurs in the second quarter in the graph on the next page. These first three elements of the Corporate Governance cycle are the planning elements.

SETTING STRATEGY

Commonly called strategic planning, this is the time when each business contemplates its future over a planning timeframe, which is very different depending on the business (high-tech 2-3 years, manufacturing 4-6 years, power generation 10+ years).

Traditional strategic thinking includes contemplating changes in and reaction to the following: business environment; markets; competition; technology; and SWOT analysis (strengths, weaknesses, opportunities, threats).

The leaders of each business need to merge the internal view from their organization with the realities from independent research and analysis—the external view—into a cogent story. That story then leads to broad elements of investment in resources, what those resources will produce and what the likely impact will be on the business.

Ultimately, the strategic plan is a roadmap with the out years shrouded in fog. However, it is the intent of each business and should become the basis for decision-making.

The CEO's role in conjunction with the corporate staff includes:

- Establishing the need for strategic planning through communication and referring back to the plan when reviewing proposals for resources;
- Establishing the schedule so that the process is completed on time;
- Indentifying the environmental framework that the business must live with. For example, assumptions for inflation, the value of the U.S. dollar, GDP growth rates, government intervention, etc.;
- Produce the slide stack or other documentation method that must be presented;
- Create the atmosphere for purposeful creativity in the review sessions;
- Provide honest feedback to each business' strategic team;
- Determine which requested investments and resources will be funded/pursued;
- Communicate the decisions, and their rationale, to the business leaders;
- Communicate the consolidated plan to the board and obtain approval;
- Communicate the final, approved plan to the

organization at large, key customers and suppliers, funding sources, and any other significant constituency;

- Consistently refer to the established strategic plan when presented with resource decisions;

One caution: remember the one thing we know to be true about any plan is that it is wrong. So be flexible enough to adjust the plan in the face of appropriate information and knowledge.

BUDGETING

This is an explosion of the strategic plan's first year. It has more details, project plans, specific timelines and detailed financials. The CEO should follow many of the steps shown above. However, each business' results and consolidated company results will become the basis for goals and rewards in the following year. Therefore, the CEO must be judicial in applying reasonable stretch targets while protecting the company from over committing.

OPERATING PLAN

This year budget planning started around July 1st or six months before the end of the year. The operating plan, in the first quarter of the next year, is where the numbers can be adjusted for known changes learned in the previous six months.

This can be handled in one of two ways. As a final budget where the third quarter exercise was the preliminary budget. This is a fairly relaxed approach which indicates a ready willingness to change the company's commitment to its owners/shareholders; Or, as an opportunity to make changes only where there is an order-of-magnitude change in key assumptions from the third quarter exercise.

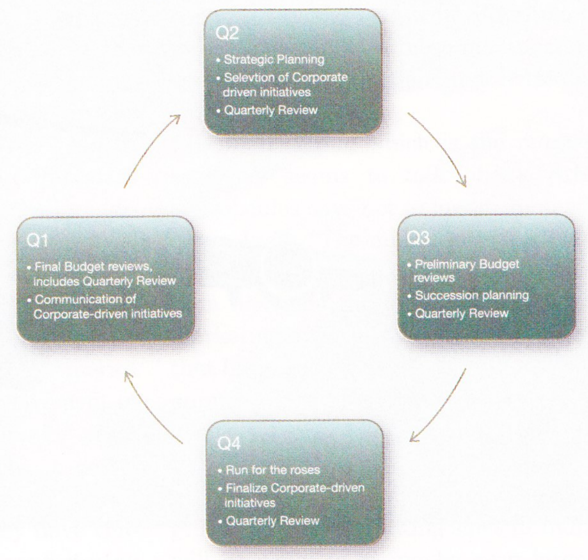
In either case, the operating plan becomes the final budget and basis for the current year's measurements.

QUARTERLY REVIEWS

At the end of each quarter, each business reports to the CEO, corporate staff, and other business leaders on their progress against goals. Remember, these goals are rooted in the strategic plan and exploded into specific projects and actions in the budget/operating plan. This is the status of their business' results against their commitment to the company.

These reviews are usually presented on predetermined slides with a heavy emphasis on financial results and analysis of variance from plan. How to get back to plan or exploit market opportunities are the hot topics.

Corporate Governance Cycle



Source: Chemark Consulting

CORPORATE INITIATIVE

I ask CEOs to think of corporate initiative in this way: What does the organization, or leadership, need to learn so that the company is prepared for the future?

In the late 1970's, with inflation in double digits, GE's CEO, Reg Jones, decided the company's executives didn't understand how to manage in an inflationary economy. The entire executive layer was enrolled in a one week course at the company's Crotonville campus. It took six months to get everyone through, but the changes in decision-making were significant and beneficial to GE's results.

Acquiring skills such as listening or coaching could be a corporate initiative. The initiative for the current year should be announced and rolled out in the first quarter. That means the selection, design and development must occur in the fourth quarter.

RETROSPECTIVE

I started this article by asking: How do you determine what you're going to do when you get to work today?

My hope is that this corporate governance model becomes a framework for what you actually do. The fact is, once this is in place and running smoothly, the fire fighting and surprises will drop in number and intensity. The whole organization will run smoother.

There is one caution. Getting started is not easy. It takes two or three annual cycles before the organization fully embraces and becomes facile with the elements of corporate governance. That means the CEO must be unwavering in his or her determination to implement the process and relentless in communicating the reasons why the process will help the company.

Remaining focused amidst all the other pressures, urgent problems and leaving comfort zones is extremely difficult. The solution is to find someone to help stay focused. This can be a board member or trusted friend. Or, an outside mentor who has the experience to help through the rough patches.

Once this process is in place, better business results will be achieved with less applied time and less stress. ***CW***

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