

Strategic Governance Testimonials

"The most important issue for every board director is a strong desire to focus more time on corporate strategy. Strategic Governance is a must read book for every director, CEO and senior manager to better understand the need and process to align strategy, culture, leadership and risk management for sustained corporate performance and growth."

**Martin Coyne, Lead Director, Akamai Technologies;
Former Executive Vice President, Eastman Kodak**

"This book provides excellent insights into the root causes and offers practical approaches to improve Governance at organizations large and small."

**Raj Gupta, Board Director - The Vanguard Group, Tyco International Ltd.,
Hewlett-Packard; Former Chairman, President, and CEO - Rohm and Haas**

"I believe that this book inspires many Asian business people to rebuild our management and governance system to have a proper understanding from everybody in the world."

**Go Sato, Former Executive Vice President, Board Director,
and Chairman of the Audit Committee - Hitachi Chemical Co., Ltd., Japan**

"This book provides a pragmatic framework that should be applied by all business leaders who aspire to build world-class organizations."

**Ralph Schonenbach, CEO, Trestle Group
Board Member, Trestle Group Foundation**

Strategic Governance

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Hank Boerner • Mark W. Sickles

Enabling Financial, Environmental, and Social Sustainability

**Hank Boerner
Mark W. Sickles**

Book Cover Explanation

The front and back covers of our book illustrate two natural examples of the breakthrough opportunity Strategic Governance provides: Swarming Intelligence (SI). Bird flocking and fish schooling are examples of SI organizations in which the performance of the whole is not merely greater but, more notably, different than the sum performance of its parts.

SI organizations have been called mysterious – even magical. Without any apparent control structure, the intelligence of the whole supervenes on its parts, causing individual performance one would never predict or anticipate that, in turn, causes the whole organization to consistently succeed in dynamic, competitive, even harsh environments.

While this principle-based system of organizational intelligence is naturally present in flocks of birds and schools of fish, it is naturally missing in human organizations like yours. Strategic Governance is your opportunity to change that.

About the Authors

Hank Boerner and Mark W. Sickles are Fellows of Governance & Accountability Institute.



Hank Boerner is Chairman and CEO of Governance & Accountability Institute, a New York-based global research, news monitoring, knowledge management and strategic advisory services provider organization, serving clients in the corporate sector, capital markets, public sector and not-for-profit sector.

He has been a business strategist and management consultant and advisor for more than 25 years, frequently assisting clients with issues in management services and programs, and response to critical events and crises situations. His areas of expertise include: public and institutional governance, shareholder activism, sustainable and responsible investment, disclosure and transparency, corporate social responsibility, third-party engagement, and capital markets activities. The Institute monitors global trends in ESG and Sustainability investing, and corporate responsibility. Contact Hank at hboerner@ga-institute.com.



Mark W. Sickles is an organizational architect, advisor to corporate directors and executives, author, and keynote speaker. Known as the creator of the globally renowned Shareholder Value Assurance (SVA) methodology, Mark has provided the global business community with a superior governance regime by integrating governance, strategy, risk, culture and social responsibility. He is rapidly becoming one of the most influential people in the world on this critical topic of strategic governance.

Over the years, Mark has practiced SVA and Strategic Governance to create billions of dollars of shareholder value as a senior executive, officer, director, and external consultant. As one client said, “Mark took away our opportunities to fail,” leading to a dramatic increase in profitability and doubling the firm’s market value in just two years. Contact Mark at msickles@ga-institute.com

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*Enabling Financial, Environmental,
and Social Sustainability*

**Hank Boerner
Mark W. Sickles**

*Fellows
Governance & Accountability
Institute*

Strategic Governance

*Enabling Financial, Environmental,
and Social Sustainability*

By

Hank Boerner

and

Mark W. Sickles

Fellows

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– Enabling Financial, Environmental, and Social Sustainability

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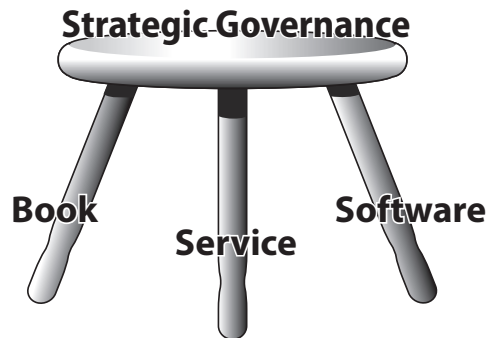
PREFACE

The Strategic Governance System



This book, *Strategic Governance*, is part of a whole. Specifically, the complete Strategic Governance System (SGS) is a three-legged stool consisting of “book, service, and software.” As with all systems, the performance of this whole is greater than the sum performance of its parts. Furthermore, SGS is a permutation in which sequence counts. The intended order of progression is book, followed by service, followed by software. To read this book is to begin a journey leading to financial, environmental, and social sustainability.

Strategic Governance System:
A Three-Legged Stool



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The Book

“We cannot solve our problems with the same thinking we used when we created them.”

Albert Einstein

“Man’s mind stretched to a new idea never goes back to its original dimensions.”

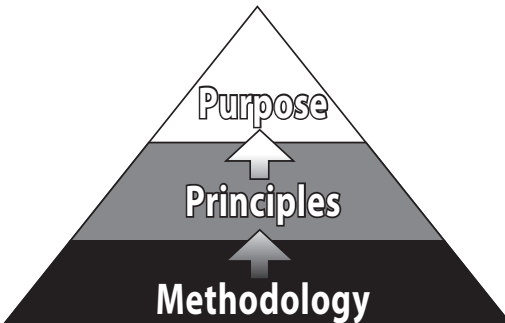
Oliver Wendell Holmes, Jr.

This book is a unique opportunity to reorient your thinking about what’s possible for your business by introducing you to an enlightened, principle-based governance regime. When you transform this new way of thinking into effective actions, you will achieve extraordinary results simply because this “new idea” driving your actions departs from conventional wisdom. For this reason, this book is also an opportunity to achieve sustainable competitive advantage.

Service and Software

By allowing you to *think* yourself into a better way of *acting*, the book enables you to complete the first stage of your

Strategic Governance Service



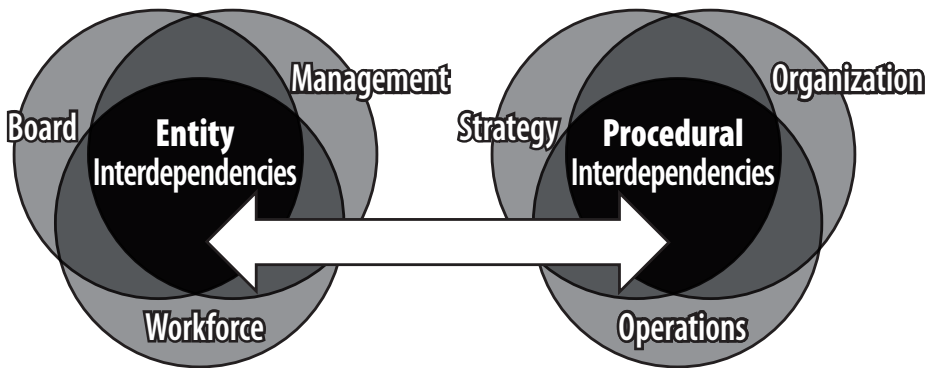
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strategic governance and sustainability journey. The service leg of the SGS stool picks up where the book leg left off, leading you through the second stage.

In this next stage, you are guided through a principle-based process enabling you to *act* yourself into an even more advanced way of *thinking*. Then, in the third and final stage, the Strategic Governance Software will enable you to codify your new ways of thinking and acting into your organization’s operating culture and daily work. This will ingrain Strategic Governance into your business environment, thereby assuring the “stickiness” essential to sustainability.

The overall SGS process is similar to the “4 Is” progression of the quality movement: Information (book), followed by Inspiration (effect of the book), followed by Implementation (service), and finally, Institutionalization (software). A brief summary of the Strategic Governance Service and Software is provided for your consideration on pages 102 and 104 in the Appendix.

Strategic Governance Software (SaaS)



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About Strategic Governance

Strategic Governance is a reorientation of the individual and global business community experience to account for the existence of an enlightened governance regime, the possibility of achieving it, and the availability of a principle-based system for doing so.

Until this reorientation is complete, we can only wonder who the next Enron, Lehman or Goldman Sachs will be, and how our lives will be adversely affected.

About the Length of This Book

Strategic Governance is a short book that will not take long to read. We know that for you, the intended audience of business leaders and management professionals, time is a precious commodity. This reminds us of another short book, *Leadership is an Art*, authored by Max Depree, former CEO of furniture manufacturer Herman Miller based in Zeeland, Michigan. Mr. Depree said that, while his book will not take long to read, simply reading it is not the goal. The goal is to take *ownership* of the book's content, using the book as an ongoing source of continuous improvement.

Our message is the same: The purpose of *Strategic Governance* is not to dabble in it, but instead, master it by taking a radical and realistic look at what ails us, and what can now be done about it. That *will* take time and effort, and we promise an extraordinary return on this investment.

About Our Approach

This book is a collaborative effort between two friends and Fellows of the Governance and Accountability Institute: Hank Boerner and Mark W. Sickles. Mark's areas of expertise include governance, strategy, sustainability, organizational effectiveness, and long-term shareholder value. He has worked in most industry sectors as an executive, officer, board member, consultant, and keynote speaker. Hank has deep experience in corporate governance, having been involved in more than 300 critical event or crisis episodes involving private, public and social sector organizations. Mark's and Hank's Bios appear in the section, About the Authors, on page 111.

The events shared in this book fall into three categories: Events experienced by Hank and Mark together; events experienced by Hank alone; events experienced by Mark alone. For "ease of reading" purposes, and also because all these events have been thoroughly discussed between the co-authors, these events will all be shared with you by "us" and "we," rather than "him" or "I."

About Our Discipline

Strategic Governance as a body of knowledge has been developed over the years toward the goal of becoming a science. A body of knowledge becomes a science when, to paraphrase Albert Einstein, the need for proof of assertion decreases because of increases in its lucidity and logic. This is achieved by focusing on the triad of *what, why, and how*.

Several years ago, we gave a presentation on an earlier generation of Strategic Governance to an audience of senior executives.

Before doing so, we studied the evaluation form to learn how we were going to be judged by the audience. The first question, set up as a continuum, asked whether the presentation was “Practical” or “Theoretical.” The way the scoring was set up clearly indicated that Practical was good and Theoretical meant “Impractical” and was bad. We addressed this with the audience by saying our presentation was both practical *and* theoretical, citing Dr. W. Edwards Deming’s well-known thought that practice without theory is meaningless, adding that management is a paradox: A game of “and/both,” not “either/or.”

When a body of knowledge is practical (the *what*), supported by theory (*why*), and guided by principles (*how*), over time, axioms (*self-evident truths*) emerge. This is the goal of science, and management is a science. (To those who say management is an art, we agree, defining art as “the creative application of science” – and/both, not either/or.)

Over the last 30 years, we have followed this disciplined path on our ongoing journey of continuous improvement, leading to the development and evolution of the science of Strategic Governance into what it is today. By joining us on this journey, you will become a valued contributor to the growing momentum of the Strategic Governance movement enhancing the global business community’s ability to achieve The Universal Purpose of Corporate Governance and thereby fulfill its destiny. If not you, who? If not now, when? Welcome aboard!

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INTRODUCTION



“Imagination is more important than knowledge.”

Albert Einstein

Imagine a future in which your company is included in a mutual fund or Exchange-Traded Fund comprised of only the best-managed firms from each industry sector. Imagine in this future your company consistently outperforming all alternative investments of comparable risk. Imagine being considered a great company to partner with by your suppliers and vendors, a great company to work for by your employees, a great company to buy from by your customers, and a great company to invest in by your owners. Imagine a future where all of your valued stakeholders praise your ability to integrate and manage financial, social, and environmental responsibilities in ways that meet or exceed their needs and expectations. If you find this future desirable, then read on.

Strategic Governance is a unique approach for “pulling this future into the present” while developing your organization’s overall capability into a strategic asset and sustainable competitive advantage. As a first step, we recommend taking the Strategic Governance Self-Assessment Survey now, before reading the rest of the book. (This survey appears in the Appendix on page 99 and online at <http://www.SustainabilityHQ.com/SGSurvey>.) Then, after reading the book and imagining your company transformed by the Strategic Governance System, we recommend taking the survey again from this new point of view, and then developing and implementing plans to achieve this transformation. Key point: The bigger the difference in the survey results, the bigger your opportunity for improvement.

Making the Case: The Need For A Global Governance Standard



In October of 2008, activist investor Carl Icahn issued the public charge that corporate boards of directors aren't doing their jobs. Famed investor Warren Buffett in effect said the same thing in 2003. And as far back as 1976, no less an authority as modern corporate management's leading guru, the late Peter Drucker, observed that the corporate board of directors has failed as an institution in nearly every major financial fiasco over the last half-century or more. (Taking us all the way back to 1926!)

Having been deeply involved in board education and corporate governance during the first decade of this new century, we can see why: There has been far too little discipline and science applied to this critical function. Corporate governance, ironically, needs to be better governed, and the roles of directors, officers and managers need to be transformed.

The global economic crisis that took hold in early 2008 stands as an indictment of past and present governance approaches. Issuer

box-checking, more financial legislation, and copious new federal regulations may indeed be necessary, but they are definitely not going to be sufficient over the long-term. **Something's missing, and it's been missing for a long time.**

Consider this conclusion reached by a task force of US-based political officials during the Clinton Administration: You can have a bad society with a good economy, but you can't have a good society with a bad economy, because you need the resources derived from that good economy to fund what constitutes a good society.

This conclusion begs the following question: What's been missing that needs to be present for communities and businesses to work together as a more harmonious system, to simultaneously and continuously create and maintain good economies *and* good societies?

The answer, in a word, is *integrity*.

By integrity, we mean a lot more than being honest. We mean soundness and wholeness of the business enterprise, achieved by leadership competence at the systems level of thought and action, often described as "leadership by design," or "leadership by architecture." **This leadership style has been missing, and it's been *missing* that it's missing!**

When integrity and the systems level of thought and action are present, you will manage your business as part of a community. You will include "assuring a good society" – providing the greatest amount of good for the greatest amount of people – as part of your firm's purpose.

And when your whole community prospers as a good society, there will be more qualified employees and suppliers, more

able-to-buy customers, and more able-to-invest shareholders. Counter-intuitively, your giving to society will bring you and your stakeholders greater economic wealth.

As you know by now, there is a new community demanding our integrity – the global economy. If we fail to respond to the internal and external challenges we face, the economic fiascos of the first decade of this new millennium will continue, simply because the root cause of the problem is what’s always been our most costly error of omission: ***Failing to think and act at the systems level.***

Yes, as author Thomas Friedman writes, the world is now flat, in large part due to the dispersion of the wireless Internet. But no, the world is not yet a global eco-system, where all the parts work together in a state of integrity, harmoniously pursuing shared goals and objectives. All we have to do is look at the 2010 Goldman Sachs case to know we still have a serious problem to solve requiring a new, principle-based approach to corporate governance.

Again, something’s missing that needs to be present. To repeat the key thought here: **That something is management at the systems level of thought and action.**

Historically, management as a discipline has not developed as rapidly as technology. This disparity has created a costly dysfunction summed up with this statement: *We think we’re in the saddle riding technology, but instead, technology is in the saddle riding us.*

For example, while working with a *Fortune 200* durable goods firm several years ago, we heard that the senior members of the IT staff said to the CFO, “Good news – the SAP implementation is

done.” The CFO responded by asking, “If the SAP implementation is done, why aren’t we doing our work any differently?” *We think we’re in the saddle riding technology, but instead, technology is in the saddle riding us.*

Here’s what everyone seems to be missing: It’s more important to install the system in your people’s *minds* than it is to install the system in your people’s *computers*. The people at this durable goods firm were not doing their work any differently because, in their minds, their work had not changed. The new SAP software was not a solution to their problems, but instead, represented a distraction from their work. The technology was being *pushed* on line management by IT when it should have been *pulled* from IT by line management. SAP sold the technology to IT – but IT never bothered to sell the technology to line management.

We’ve seen this before. The CIO complains to the CEO that no one is using the new software system that cost the shareholders millions of dollars. So the CEO asks line management, “Why not?” The answer: “Because that’s not the way we do our work!”

Our colleague, Barrie Peterson of Fairleigh Dickinson University, views this as leaders thinking that technology is some overarching, inevitable force rather than something people use too often for their own short-term or exploitative ends. The e-commerce bubble, he points out, was based on a fantasy that “eyeballs visiting websites” could be counted as future potential income and that fiber-optic, when laid down, could be booked by Enron as current profit.

In another *Fortune 500* firm – a leader in the food sector – we were asked to help members of a corporate function who felt they were being bullied by IT to change from PeopleSoft to SAP software. We asked them, “Do you feel your IT function is more

interested in satisfying you or SAP?” They said, “That’s the easiest question we’ve been asked in a long time.” *We think we’re in the saddle riding technology, but instead, technology is in the saddle riding us.* To reverse this trend, it is imperative to remember that, while *management without technology is lame, technology without management is blind.*

In 2009, on network television in the US, a teenage girl was asked why she put embarrassing pictures of herself on her personal website. She explained, “It’s easy.” The interviewer went back at her to clarify: “No, I’m not asking *how* you uploaded the pictures to your site; I’m asking *why* you did it, since they reflect so poorly on your character.” The young woman could not hear the difference in the question, responding, “I already told you – it’s easy.”

When we shared this story with a university professor, a colleague who had been complaining that his students think editing a paper simply means using spell-check – *blindly* – we asked him if he had an explanation. He responded in a heartbeat: “They think if the technology lets you do it, it must be good.”

In brief, as each of these tales indicates, we have insufficient management and excess technology. This imbalance causes blind usage of *technology* systems, arguably a significant factor contributing to the 2008 global economic crisis, due to the corresponding insufficient usage of *management* systems. The Strategic Governance movement will correct this imbalance.

For the most part, technology is an enabler, an accelerator, and potential source of error-free work. It enables us to do things we otherwise couldn’t do, or do things we can do faster and more accurately. If we have a *bad* management approach, technology will accelerate our demise. If we have a *good* management

approach – one based on integrity and the systems level of thought and action – technology will accelerate our success. So our focus should be on better management, which in this context also includes leadership and governance, to which our use of technology should apply.

Having considered the implications of our blind use of technology in our flat world, we can now gain new insights into the root cause of the global economic crisis.

The Dysfunctional Heap

Our global economy is not yet an integrated *whole*; it's more like a dysfunctional *heap*. The parts are not aligned, linked, and working interdependently in pursuit of a “significant few” shared goals and objectives. Instead, these parts act as if they are independent wholes, with little or no concern about the effect their decisions and actions may have on others. There is too much emphasis on “local” optimization, and not enough emphasis on “enterprise” and “global” optimization.

But technology had connected these “independent” parts all around the world, so that a Sovereign Wealth Fund (SWF) in a nation-state far outside the traditional Wall Street business community was able to buy a package of mortgaged-back securities and “insurance policies” called derivatives. And we all know how that worked out! *If the technology lets you do it, it must be good.*

Since integrity was missing from management, the insurance policies were sold without the capital reserves needed to support them. The people who designed these instruments did not consider or care about the global implications of their imprudence.

The people who sold them to SWFs, foreign and domestic pension systems, and the world's central bankers, also did not consider or care about the consequences of the widespread potential default of these exotic products. Why?

Because what's been missing from management, from leadership, and from governance, is the essential ingredient for integrity, wholeness and soundness: **A principle-based, systematic, strategic approach to governance.**

This is why the Strategic Governance System we've developed includes 10 interdependent principles, themselves forming an integrated *whole*. When these principles are masterfully applied using a methodology proven to increase long-term shareholder value, The Universal Purpose of Corporate Governance is achieved, and the goal of a global eco-system becomes an opportunity to pursue, rather than a pipe-dream to dismiss. This is Strategic Governance in a nut shell: Methodology enabling principles; principles enabling purpose.