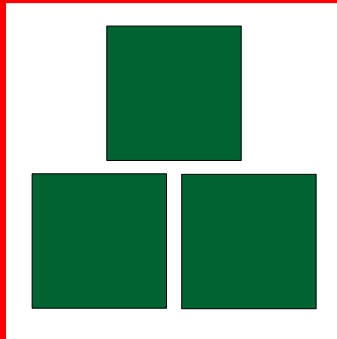


VALUES-BASED GOVERNANCE DISCIPLINES - A THREE-LEGGED STOOL



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Article reprint

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Whether they are applied by an entrepreneur on a first-time venture, or by the management of a well established enterprise, values-based governance disciplines provide a control mechanism for investors. The three disciplines of stewardship, strategy, and structure regulate the three processes of planning and policy development, deployment, and performance measurement. When these disciplines are in place, the processes are under control; investors can "rest assured" on "the three legged stool."

The Governance function, which consists of the board of directors and the chief executive of a corporation, the members of a limited liability company, or a sole proprietor, has the ultimate responsibility for an enterprise to its investors. This responsibility includes taking care of the affairs of the enterprise, and protecting its assets.

Management, which refers to the board of directors, officers, and non-official managers, has the authority and responsibility for directing and controlling the events and activities.

The governance disciplines of stewardship, strategy and structure dictate relationships among employee, customer, supplier, regulator, and competitor constituencies for enacting change and earning value. The management team must be able to demonstrate that they can enact change, both by being able to cause it or respond, depending upon opportunities and conditions.

Stewardship, strategy, and structure...

Stewardship is the responsibility for the performance of an enterprise and the delivery of value to constituencies. The responsibility includes ensuring that the enterpriship (entrepreneurship, leadership, and management) competencies of individual employees are used judiciously. If so, ideas are transformed into value innovatively, directions are set that others can follow effectively, and resources are applied to achieve results efficiently.

Strategy addresses the beneficial positioning of an enterprise in the marketplace so as to deliver value over time. It begins by establishing the values and guiding principles, mission, vision, and value proposition, and ends with delivered value. The results are only as good as the underlying assumptions.

Values form the basis for behavior within the enterprise, because they describe a system of management's beliefs that set expectations for individuals, establish positions and priorities, and provide a framework for decision making. As a consequence, the governance disciplines must be values-based, because if management doesn't live the values, nobody else will.

Strategy establishes the direction for competitive, collaborative and cooperative advantage, and performance excellence.

Competitive advantage is about the position and posture that offers constituencies better value than competitors. Causing change affects competitors, but being able to respond to change caused by competitors is essential to sustainability. Collaborative advantage is about the relationships between suppliers, or customers, or peers as a partnership with a common mission, and operating dependently for mutual value. Cooperative advantage is about the relationships between suppliers, or customers, or peers as an association with a similar mission, but operating independently for mutual value.

Performance excellence means doing the right things, and then doing those things well.

Structure is the consequence of strategy, and defines the business model - the enabler of relationships between an enterprise's infrastructure, products and/or services, markets, and constituencies that deliver value. The infrastructure itself consists of processes, functions, facilities, and equipment. Products and/or services are delivered through the infrastructure to both external and internal customers.

Planning and policy development, deployment, and performance measurement...

The values-based governance disciplines are enacted through the enterprise process model. This model defines three processes: planning and policy development, deployment, and performance measurement. The deployment macro process subdivides into the research and development, and sales and production micro processes. All activities that earn and add value are embraced by this model.

Developing, enhancing, and maintaining plans and policies is best accomplished first on an enterprise basis with with strategic objectives and goals, and then on a tactical basis by function. Functional plans include business development, operations, finance, human resources, and information technology.

Deployment activities include research and development, and sales and production. Research and development activities are project-oriented with a finite beginning and end. Sales and production activities are either perpetually-oriented or project-oriented, depending upon the nature of product and/or services offered.

For example, the sales and production activities of a food service enterprise are perpetually-oriented, whereas the activities of an aircraft manufacturer are project-oriented, varying by each contract negotiated.

Perpetually-oriented means occurring continually, but not necessarily permanently. For example, operators of food service establishments must maintain standards, and offer exciting new menu items from time-to-time to preserve sales levels. However, contract manufacturers have to drum up new business before current contracts expire, otherwise production activities can come to a hard stop. Sales levels in food services establishments may be seasonal, and can fluctuate with consumer confidence, impacting staffing levels. However, once contracts booked, manufacturing workloads should be reasonably stable.

Performance measurement processes must address both financial and non-financial measures. Revenues, costs and expenses, profits, cash flows, and returns on investment involve financial measurements based upon rates, quantities of input, and volumes of output. Financial performance must be evaluated in terms of non-financial measures, such as market share and penetration, product usage, employee and customer satisfaction, quality, time-to-market, cycle time, and asset utilization.

Full compliance with laws and regulations is an essential performance criterion, and should be measured; otherwise values are meaningless.

Control mechanism...

The values of the enterprise must promulgate the notion of trust and integrity; management has the responsibility to behave accordingly. Such behavior includes being willing to fully disclose both satisfactory and unsatisfactory performance and results.

Actual performance should be compared to planned through a feedback loop that provides timely actionable information, so that problems can be better anticipated, and solutions implemented with deliberation. It's difficult to "save face" when things go wrong, but early prevention is better than cure.

An internal audit function should provide independent assessments of the effectiveness of processes in medium to large enterprises directly to the Governance function. These assessments should be in addition to external audits.

If the governance disciplines are applied routinely, the processes executed consistently in accordance with plans and policies with independent audits, then the investors have a control mechanism in place. This mechanism ensures that the affairs of the enterprise are being taken care of and its assets are protected.

The values-based governance disciplines of stewardship, strategy, and structure provide a three-legged stool upon which the investors can "rest assured." Leveraging values-based governance disciplines is an enterpriship competency.

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About Nigel A.L Brooks...

Nigel A.L Brooks is a management consultant to entrepreneurs, business enterprise owners, executives, and managers, and the enterprises they serve. He specializes in developing the entrepreneurial, leadership, and managerial competencies that build sustainable advantage from vision to value. He is an author and a frequent speaker.

He obtained his professional experience as a partner at Andersen Consulting (now Accenture, Ltd.), as a vice president at Booz Allen Hamilton, Inc. (now Booz and Company), as a senior vice president at the American Express Company, as president of Javazona Cafes, Inc., and as president of The Business Leadership Development Corporation. He has been a contributing editor for the Bank Administration Institute magazine, and has served on boards of entrepreneurial networks. He was educated at the University of Exeter, Devon, United Kingdom.

His clients are in the financial services, food services, high-tech, manufacturing and distribution, pharmaceuticals, oil and gas, professional services, retail and wholesale, transportation, and government industries.

He has experience in North and Latin America, Europe and Asia-Pacific.

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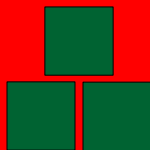
About The Business Leadership Development Corporation (BLD)...

The Business Leadership Development Corporation is a professional services firm that works with entrepreneurs, lifestyle business enterprise owners, executives, and managers, and the enterprises they serve.

BLD develops entrepreneurial, leadership, and managerial competencies that achieve performance excellence by *building sustainable advantage from vision to value*™ through:

- Strategic Management Consulting
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