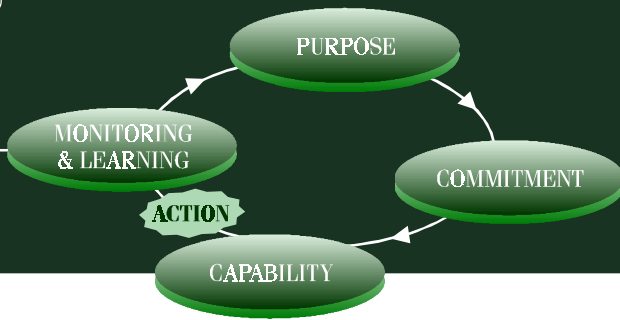


connections



A newsletter for people committed to enhancing decision-making and improving performance through control, risk management and governance

AUGUST 1999

Guidance for Directors – Dealing with Risk in the Boardroom

This publication offers valuable insights to boards of directors and those who provide support to them on how to improve an organization's chances of success and manage its risk of failure. Understanding the organization and its operating environment as they currently exist provides a platform for action to create the organization of the future.

Do you serve on a board of directors – of a not-for-profit organization, government entity or a for-profit corporation? Or do you provide information to a board? If so, you will gain fresh inspiration from reading this publication, and you may even get a step ahead of your peers. Better still, since the document is in draft form you'll have an opportunity to help improve it and be part of global leading-edge thinking.

Less than 25 pages long, the *Guidance* is packed with tough questions and practical advice from eight prominent Canadian directors who helped develop it. Topics include:

- Assessing the organization's chances of sustained success
- Reviewing information about future performance, opportunity and risk

- Strategy review, project approval, operational risk and emergency preparedness

All of this will help the board gain insight into overriding governance issues such as the soundness of corporate strategy and the competence of senior management.

Also included are some candid, compelling stories of success and failure. Here is one.

A director's story

As I head into retirement and look back on my career as an independent director, I realize that my efforts were mostly futile. I think especially of my time as a director of a financial institution that failed. Management gave us reams of information about past performance and we dutifully discussed it. We were looking at the wrong information and asking the wrong questions. We should have focused on the future and questioned the strategy and the competence of management to execute it. That's what caused the institution to fail and the board didn't wake up until it was too late.

Invitation to comment

Guidance for Directors – Dealing with Risk in the Boardroom is intended as the fourth publication in the CoCo Board's series on control, risk and governance. You can obtain your copy from the CICA web site: www.cica.ca or by calling (416) 204-3342 (Toronto area) or 1-877-742-6551 (rest of Canada). Individuals and organizations are invited to send written comments by **November 15, 1999**.

WHAT'S INSIDE

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Vice President, Innovation

CICA Vice President Innovation Cairine M. Wilson has been appointed to this new position within CICA. She heads up the New Products Group which includes Assurance Services Development, Studies, the Canadian Performance Reporting Initiative and Market/Opinion Research, as well as CoCo. Cairine is a member of the Canadian Marketing

Association and the Direct Marketing Association. Her career includes senior positions in marketing and products development in a variety of organizations.

After an initial briefing on CoCo, Cairine says "I see lots of possibilities. I am looking forward to learning more and contributing to this initiative."

Where is CoCo heading?

The mission of the CoCo initiative is to improve organizational performance and decision making through better understanding of control, risk and governance. Intellectual leadership in this area will enhance the reputation of the CICA and create wider opportunities for CAs to add value. Over the next 12-30 months, our strategy has four main planks: raising awareness among directors and senior

management through promotion of *Guidance for Directors – Dealing with Risk in the Boardroom*; repositioning the "control" image and related materials as necessary to appeal to CEOs and other economic decision makers; developing a competence model and in-depth development opportunities for CAs; and continuing the development of new intellectual capital responsive to emerging interests.

A vision of CoCo competencies

Based on feedback from various CoCo presentations, people are eager to explore leading edge concepts and they want to know more about the CoCo way of thinking and its underlying philosophies. It is not surprising, therefore, that we are often asked: *What competencies are required to perform a CoCo assessment of organizational effectiveness?* Consulting with CoCo practitioners and academics, a project is currently underway to identify these competencies.

To provide direction to the project, the term competency has been defined as *knowledge, skills and experience consciously informed by values, ethics and self-awareness*. The competencies identified are those of the ideal person leading or providing support to a team conducting a CoCo assessment.

We are currently developing the outline of an interactive, stimulating and intensive program for people who would like to acquire the CoCo competencies.

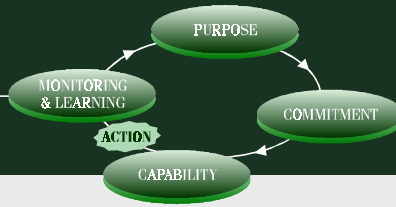
The program would include the theory and knowledge, conceptual skills, inquiry skills and interpersonal skills required for the key stages of a CoCo assessment:

- Contracting with the CEO and board of directors
- Building the team to conduct the assessment
- Collecting the data, ensuring its validity and reliability
- Interpreting many different sources of data, understanding any contradictions
- Communicating the work of the team
- Reflecting upon the assessment and its impact on the team and the organization

If you are interested in further information as this initiative proceeds, contact Ashley Dafel at (416) 204-3311.

Don't forget the web site as a source of CoCo news

www.cica.ca



CoCo – A bridge to partnership

The Toronto Bridge Club was the site of an unusual experiment on June 10. Nineteen people gathered to learn how to play bridge and at the same time become more aware of what makes a successful partnership. The one-day pilot presentation was developed by bridge professionals, Rob Drummond and Grant Gordon, together with bridge amateur, Bill Bradshaw, who brought the CoCo perspective.

Here is the response of one participant to the question– “what did you find most valuable?” “Breaking the game up – getting into it methodically by starting with Triumph and Whist and moving slowly into the greater complexity of Bridge.”

And what did the participants learn about partnership? Lots, including the importance of shared objectives, trust, listening, commitment and curiosity.

At the conclusion of the day everyone was given a copy of *The Club Series Bridge*, by Audrey Grant, *CoCo – The Big Picture*, and a memorandum entitled *A successful partnership* which included seven questions, based on CoCo, which people can ask when entering into a new partnership.

The experimental workshop has opened up many exciting possibilities for using bridge (or other games) as a way for people to learn about CoCo. Here are some preliminary ideas:

- A workshop for people from one company with a focus on building a learning organization.
- A workshop to introduce people to the basics of CoCo, both theoretically and experientially.
- A 2 or 3 day workshop on forming, developing and monitoring effective partnerships.

A systems perspective on risk

Robert Simons has developed and tested a “Risk Exposure Calculator” (Calculator) to determine how much internal risk is hiding with a company. His article, *How Risky is Your Company?* appeared in the May-June, 1999 issue of the Harvard Business Review.

The Calculator can be used to gauge a company’s likelihood of being surprised by errors or breakdowns that could threaten its franchise or strategy, perhaps even its very survival.

As Simons makes clear, it is in good times that managers need to be most watchful for signs of impending danger. It is in good times that it is so easy to forget about risk. Success should make managers nervous and galvanize them to identify their level of internal risk exposure.

The Calculator is divided into three types of internal pressures: those due to

growth, to culture and to information management. For each, success increases the level of risk. One common outcome is that people fail to share important information, especially with their bosses.

The Calculator could be useful as part of a CoCo assessment process. These ‘internal pressures’ could be identified through the assessment of control. By using the Calculator, the assessment team could determine whether the company is in the safety zone, the caution zone or the danger zone.

In addition, the assessment team could conduct focussed interviews of people within different functions of the company and use the Calculator to compare scores. In Simons’ experience, this often shows that senior management is less aware of risk exposure than those close to the ground.

A risk rating using the Calculator represents an opportunity for an assessment team to provide a more comprehensive view of the organization as a whole at the conclusion of an assessment.

From the bookshelf

1001 ways to energize employees, Bob Nelson, Thomas Allen & Son Limited, Canada (1997).

Energized employees are a vital force in any organization, and *1001 Ways to Energize Employees* shows us how to unleash this power through a wealth of examples. A practical handbook full of ideas and practices on building employee morale and unleashing employee potential, it represents the new frontier of organizational effectiveness – teaching us to treat our employees so that they are inspired to give their best at work every day. The book weaves together case studies, examples, suggestions, sample corporate vision statements, and quotes from hundreds of America’s most successful businesses and business leaders.

Jack Stack, President & CEO, SRC Corporation and Author, *The Great Game of Business*, says “organizations need energized people. Open-book management, employee empowerment, continuous improvement, participative management, and self-directed work teams are all concepts that seek to energize employees by making them a more integral part of the workplace.”

The book is broken down into three parts with Part I focusing on the individual and suggesting techniques to enhance the one-on-one manager/employee relationship and the effectiveness of the employee. Part II addresses team efforts and offers techniques that can be used to increase the effectiveness of any team, department or group. Part III discusses the organization and shows techniques and systems for getting desirable results from employees throughout the entire organization.

The major information challenge

In his latest book, *Management Challenges of the 21st Century*, Peter Drucker discusses four sets of diagnostic tools that constitute the executive's tool kit for managing the current business.

CoCo criterion C3 states – "Sufficient and relevant information should be identified and communicated in a timely manner to enable people to perform their assigned responsibilities." Drucker provides valuable insights on the meaning of relevance in the context of his belief that "enterprises are paid to create wealth, not to control costs."

Foundation information. This information can be likened to the measurements a doctor takes at a routine physical: weight, pulse, temperature, and blood pressure. If these readings are normal, they don't tell you much. If they are abnormal, they indicate a problem that needs to be identified and treated. In a business foundation, information would include cash-flow projections and earnings coverage for interest payments on a bond issue.

Productivity information. Economic Value Added (EVA) and benchmarking provide tools to measure and manage total factor productivity. They can be used to find out what works – what products, services, operations and activities have unusually high productivity and add unusually high value. The question then becomes "what can we learn from these successes?"

Competence information. Core competencies meld market or customer value with a special ability of the producer or supplier. They are different for every organization. They are part of an organization's 'personality.' But every organization needs one core competence: innovation. In order for an organization to appraise its innovative performance, it needs to ask questions such as:

- What were the major innovations in the entire field?
- Which were successful?
- How many were ours?

- Are our successful innovations in the areas of greatest growth and opportunity?
- How many of our truly important innovation opportunities did we use?
- Why? Because we did not see them?
- Or because we saw them, but dismissed them?

Resource allocation information. To understand a proposed investment, a company has to look at four yardsticks: return on investment, payback period, cash flow, and discounted present value.

Managers should never look at just one proposed capital appropriation in isolation. To choose projects, which show the best ratio between opportunity and risk, managers and directors need a capital appropriations budget to display choices.

Frequently two vital pieces of information are not requested:

1. What will happen if the proposed investment fails to produce the promised results, as do three out of every five?
2. If the investment is successful – and especially if it is more successful than we expect – what will it commit us to?

In the effort to create wealth, managers need to allocate human resources as purposefully and as thoughtfully as they do capital; and the outcomes of those decisions ought to be recorded and studied just as carefully.

These four kinds of information tell the story about current business. The real information challenge for all enterprises is how to build systems to gather and organize outside information. A few multinationals – Unilever, Coca-Cola, Nestle, some Japanese trading companies, and a few big construction companies – have been working hard on building systems to gather and organize outside information. But in general most enterprises have yet to start the job.

This is a major information challenge for all enterprises.

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FEEDBACK

Copies of *Connections* can be obtained: off the CICA web site at www.cica.ca; by e-mailing janice.turner@cica.ca; or by calling Janice Turner **(416) 204-3241**. If you have any comments on the newsletter, please fax them to Janice Turner at **(416) 977-8585** or e-mail her at the above address.

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I am interested in contributing to the newsletter and would like someone to contact me.

I would like to receive a hard copy of *Connections* on a regular basis.

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