



## **Good Governance: The Result of Effective Strategy and Management Systems**

### **What Is Good Governance?**

The current problems in the global economy are focusing attention on the need for businesses to operate under the principles of good governance. These principles call for creating systems, policies, and procedures that provide transparency into operations and finances; support disciplined and effective operations; and instill ethical values and attitudes that guide the behavior and actions of the Board of Directors, executives, managers, and employees.

In a business, the principles of good governance work to:

1. Protect the rights of all stakeholders, including government agencies, investors, lenders, employees, and consumers. Businesses that are run well meet their obligations and provide the information, performance, and high-quality results their stakeholders need.
2. Bring objectivity and clarity to the decision-making and planning processes. Businesses with effective systems, policies, and procedures are able to generate the information needed to make decisions, monitor operations and strategy implementation, and adapt to changes in the business environment.
3. Improve operational processes. Businesses with effective systems and procedures are able to see where operations need to be improved, where bottlenecks need to be smoothed, and where employee issues need to be addressed.
4. Provide transparency into finances, operations, and actions. Businesses, especially public corporations, need to give their stakeholders a clear look at how they are performing. This is essential for the functioning of the financial markets.

*This white paper was written by Thomas Cowan and the thought leaders at the VECKER Institute, which provides business executives and Board members with the practical tools and applications they need to build great companies and to carry out effective governance of the business. We are interested in receiving your comments on this white paper and on the topic of good governance. Please contact us at: [info@vecker.com](mailto:info@vecker.com).*



5. Provide stability, perspective, and clarity in unsettled times and complex environments. Businesses with solid operations and procedures have created the groundwork for responding in a planned and organized way to changing business environments. They are better able to assess how changes are affecting them and to adapt their strategies and implementation programs to meet the new realities. They will be more likely to survive in tough times. This is especially true when faced with difficult economic conditions, rapid development of new technologies, and changing patterns of business (as with globalization and new international trade provisions).
6. Allow the Board, executives, and managers to carry out their responsibilities in relation to the business itself.

The business press often talks about good governance as a role of the Board of Directors. Boards do set the tone and culture of the entity, provide oversight of policy and finances, provide accountability, and are subject to liability – all aspects of good governance. But it does not stop there. All executives and managers within a company are accountable for their actions in carrying out strategies and operations and in meeting their business and financial goals.

These concepts of good governance apply to businesses of all sizes and structures: corporations, privately owned companies, small-to-medium-size businesses, partnerships, and even sole proprietorships. All businesses are subject to taxation, laws, and government regulation. All have many stakeholders – investors, employees, customers – who are interested in the performance of the business and its products and services. All profit from operating effectively, ethically, and responsibly.

As businesses grow or change structure, their strategies, operations, procedures, and practices will necessarily change. Entrepreneurs may start as sole proprietors with one product line, but may find themselves several years later as small business owners with employees supporting additional product lines and markets. Privately owned businesses may decide that, to meet their growth strategy, they need the infusion of capital that comes from going public. With each change of strategy, these businesses need to adapt procedures and operations to meet their new business and financial goals. They also need to recognize that they have additional stakeholders, with requirements, expectations, and procedures that must be met.

## **Creating Good Governance**



Good governance does not simply happen. Rather, businesses develop practices and management systems that together contribute to the growth of good governance.

## **Business Practices**

Good governance starts when a business understands its basics – its industry, environment, culture, and purpose. These basics underlie how the business approaches its markets and how it sets out its product lines, organizational structure, and functions.

With the basics in place, the business needs to establish the practices and procedures for getting the work done: developing strategies for growth and operations, executing the strategies, driving the strategies throughout the organization, monitoring progress, getting feedback, and evaluating performance. The goals of these practices and procedures are to support the development and financial success of the business.

Establishing the practices and procedures alone may not be enough. The business needs to make them concrete, to acquire the discipline to follow the procedures fully and to act when needed, to assign responsibility for actions and hold people accountable, and to regularly measure the progress against long-term goals.

Now the business is really executing its strategies well. It is getting done what needs to be done. It is using solid information to drive strategies, identify and correct employee issues, and strengthen the structures that make the strategy work. It is making sure that any needed teamwork and cooperation across functions is taking place. It is achieving its goals, fulfilling its purpose, and meeting the needs of its stakeholders. It is operating under good governance.

This business's good performance has come about by having in place a management system that allows it to identify the information it can use to measure performance, collect and analyze the information, and take necessary corrective actions.



## Management Systems

Management systems are defined, structured, and integrated tools and methods for developing and executing strategies. They measure how well the business is executing the strategy and how effective the strategy is in meeting the business's goals. The information they generate can be used to get a clear look at what is happening in the business, measure progress, and decide what to do next.

The information generated by such a management system usually falls into five general areas:

1. Goals: The purposes of your strategy, measurements of successful implementation, and assessments of progress.
2. Numerical data: Quantitative measurements of financial performance, investments, returns on investments, and operating performance.
3. Operations: Qualitative assessments of strategic performance, asset management, and business processes and functions.
4. Human resources: Assessments of the performance of executives, managers, and employees, as individuals, participants in teams, and people responsible for specific roles and actions.
5. Business environment: Assessments of internal and external risks and uncertainties.

At intervals, the management system generates reports covering these (or other defined) areas. The business can see where performance matches targets and where corrective action needs to be taken.

There are a number of different types of management systems. Sole proprietors may simply use a financial information computer-based program. More complex businesses can choose among a range of methodologies and programs – some computer-based, some Internet-based – that provide various kinds of functionality. Some management systems may be useful in planning or in tracking financial data or in developing action programs. Some may be multifunctional, covering all areas a business needs, from planning to execution to assessment of results.



A business can gain significant benefits and functionality by selecting and using fully a management system that meets its needs. This functionality can include:

1. Gathering and analyzing information on which the business makes decisions, develop strategies, and monitors the effects of its actions.
2. Understanding where business processes and strategy implementation have broken down and how to fix them.
3. Tracking key measurements of business performance.
4. Tracking strategy execution and effectiveness over time.
5. Using information to spot opportunities, even in tough times.
6. Monitoring risks in the business environment and the business's industry.
7. Reducing costs through increased efficiency.
8. Evaluating continually strategic initiatives.
9. Preparing to take effective actions.
10. Improving business processes by identifying what is not working.

These benefits indicate why many business thinkers stress the need for businesses to gather and analyze accurate and timely information. By doing so, businesses give themselves the means to plan, act, and operate effectively.

A number of respected books support these ideas. In *Good to Great: Why Some Companies Make the Leap...and Others Don't*, Jim Collins stresses the need for effective strategies well executed over time. In *Execution: The Discipline of Getting Things Done*, Larry Bossidy, Ram Charan, and Charles Burck discuss the need to pay attention to business fundamentals and to the information and details that contribute to good strategy execution. Other authors stress the need for good information and clear insights in making business decisions and taking action.

Managements systems, therefore, contribute to good governance by providing the information needed to support effective strategy execution and good business performance. Management systems can also provide a transparent look at the full operations of the business, allowing the Board and executives to fulfill their roles in providing good governance and meeting the needs of all stakeholders.

## **A Management System to Support Good Governance**



The VECKER SX and Tagetik 3.0 Strategy Management<sub>powered by VECKER</sub> are tools used by business leaders to successfully execute their strategies, meet their goals, and manage risk. It is a proven strategy execution management methodology built into a customizable, technology-based operational management system that:

- Gives a transparent look at the key elements of a business – goals, numbers, risks, operations, and people – and the relationships among the elements
- Provides high-quality qualitative and quantitative operational data that help review and analyze those elements
- Identifies problems and risks in key areas as soon as they arise, and reports on those problems
- Covers a business's financial systems, processes, and activities
- Provides a consistent and repeatable framework for managing strategy execution, judgments, decision-making, and goal setting from the business unit to Board levels
- Evaluates the overall performance of the business
- Tracks business performance over time

This functionality gives the Board and executives the ability to look thoroughly and deeply at a business's operations, address risks and problems, improve operational processes, make informed decisions, and run the business efficiently and responsibly. The business is positioned to plan and execute effective strategies and to react to changes in the business environment. It is able to provide accurate pictures of business performance and the operating environment to stockholders and external entities. In other words, the VECKER SX and Tagetik 3.0 Strategy Management<sub>powered by VECKER</sub> contribute to the success of the business – growth, profitability, satisfaction, and excellence.

## Summary

Current economic problems point to the need for businesses to operate under the principles of good governance. Businesses develop policies and practices that together contribute to the growth of good governance. The most effective practice is having in place a management system that allows the business to identify the information it can use



to measure performance, collect and analyze that information, and take necessary corrective actions. The VECKER SX and Tagetik 3.0 Strategy Management<sub>powered by</sub> *VECKER* are tools that provide this functionality and can be used by executives and the Board to sustain profitability, growth, satisfaction, and excellence of the business.