

CORPORATE MANAGEMENT, GOVERNANCE, AND ETHICS BEST PRACTICES

S. RAO VALLABHANENI, CBM, CABM



Association of Professionals in Business Management



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PREFACE

Corporate Management, Governance, and Ethics Best Practices was written to provide a one-stop, comprehensive reference source for corporate business practitioners and government employees worldwide. It takes a “big picture” approach to the subject matter and compiles best practices to show *what* the best practices are but does not address *how* to implement them. We believe that implementation of best practices is organization-specific based on resource availability and management strategies and priorities.

It is our hope that best-in-class employees working for world-class organizations will think differently and radically (i.e., pursue out-of-the-box thinking) and discover best-of-breed solutions and implement best practices to continuously prosper and grow their organization’s business. When implemented properly and in a timely fashion, best practices have helped world-class (best-in-class) organizations to (1) increase product sales and service revenues, (2) achieve cost, production, and service efficiencies, (3) increase effective utilization of financial and nonfinancial resources, (4) improve organizational, operational, technical, and financial performance, (5) increase the quality of products and services in the marketplace, (6) increase market share, profits, and returns, (7) adhere to ethical principles and values and comply with all applicable laws, regulations, and standards, (8) enjoy a competitive edge in the industry, (9) enhance their corporate social-responsibility posture, and (10) empower employees so they can enjoy work and contribute to organizational excellence. In short, best-in-class organizations achieve excellent results and effective management through best practices. However, organization senior management’s complacency and wrong mindset can become a major hurdle to achieving and maintaining the world-class status.

The best practices included in this book are not specific to an organization or industry or a country. Our goal is to provide general best practices for wider distribution and large-scale application so that all organizations can benefit. Specific industry best practices can be added to or integrated with these general best practices. Best practices in this book are described in terms of strategies; plans; policies; procedures; guidelines; principles and practices; scorecards, metrics, cycle times, and standards; tools and techniques; action steps; controls (i.e., internal controls, management controls, operational controls, and technical controls); and laws, rules, and regulations.

In terms of use and applicability, best practices established for business management professionals are similar to the professional standards established for accountants, auditors, engineers, lawyers, doctors, and other professionals. It is interesting to note that business managers and executives look at the “best practices” as suggestions (advisory and voluntary) in providing flexibility to them during implementation of the practices and they look at the “professional standards” as restrictions (mandatory) in requiring rigid conformance to the standards by technicians.

The audiences for the best practices book are many, as the book is beneficial to all business corporations, business management and accounting consulting firms, business research institutions, governmental agencies, business schools and universities, and manufacturing and service industries around the globe:

- Business practitioners working for profit corporations, regardless of the business, function, industry, or country
- Government agency heads and employees working at the federal (central), state (province), or local level, regardless of the country
- Management consulting firms and accounting firms providing consulting services to business corporations and/or conducting research in best practices and benchmarking
- Procurement, contracting, and manufacturing officers in governmental agencies, such as the U.S. Department of Defense (DoD), working with defense contractors in acquiring manufactured goods and related services
- Procurement and contracting officers in nondefense governmental agencies such as the U.S. Department of Commerce in acquiring goods and services
- Public or private research institutions conducting best practices and benchmarking research in business-related topics
- Business professors teaching in business schools and universities and/or conducting research in best practices and benchmarking

This book provides a single and standard *framework* for organization-wide implementation of best practices and constitutes an authoritative source on best practices covering all functions of a business corporation, including governance and ethics. Each of the 13 self-contained chapters starts with an overview of its topic and a presentation of management's roles and responsibilities, proceeds to a discussion of core topics, and ends with applicable laws, regulations, standards, and principles.

Chapter 1, "Introduction," describes how benchmarking methodology is used to find the best practices; explains the need for performance indicators and measures such as scorecards, metrics, cycle times, and standards; establishes a solid link between cycle times and business velocities (e.g., sales, inventory, production or service, finance, human capital, and systems velocity); and introduces a new model called the best-practices management capability maturity model as a structured way to implement the best practices to improve business processes. Information from Chapter 1 is useful with respect to all chapters because it provides a common framework to apply to them.

Chapter 2, "Corporate-Governance Best Practices," sets the overall stage and tone in discussing the primary driving force to be followed by all business functions and all business managers and executives. It presents corporate governance principles, employee reporting relationships, and roles and responsibilities of the board of directors, the Chief Executive Officer, the Chief Governance Officer, external auditors, internal auditors, audit committee and other committees, the Chief Legal Officer, and gatekeepers. It discusses topics such as corporate control framework, fraud and fraudulent financial reporting, and corporate risk management.

Chapter 3, "Corporate-Ethics Best Practices," provides boundaries within which corporate management and all business functions can operate in a unified, consistent, and ethical manner. Ethical and legal principles such as due process, due care and due diligence, due professional care, and codes of conduct are discussed, along with the roles and responsibilities of the Chief Ethics Officer. How a corporate management should handle various stakeholders from an ethical viewpoint is discussed.

Chapters 4 through 13, all dealing with corporate-management best practices, address specific practices in the areas of general management (Chapter 4); manufacturing and service (Chapter 5); marketing and sales (Chapter 6); quality (Chapter 7); process (Chapter 8); human resources (Chapter 9); accounting, treasury, and finance (Chapter 10); information technology (Chapter 11); international business (Chapter 12); and project management (Chapter 13). Examples of performance indicators such as metrics and cycle time measures are presented in manufacturing and service, marketing and sales, human resources, finance, and information technology. Information regarding quality management and process management should be blended into the other chapters that pertain to corporate management, as it provides a common application featuring tools for quality control, quality management, problem solving, decision making, and process management.

Performance indicators (stretch goals) such as scorecards, metrics, cycle times, and standards are part of an organization's value chain and best practices. The value chain should be enhanced by increasing value-added activities and by eliminating non-value-added activities to provide a permanent value to the internal and external customers as well as to the organization as a whole. This requires first streamlining the business processes; second simplifying; third, standardizing; and then institutionalizing them.

Organization's management can discover best-of-breed solutions only when they listen to various *stakeholder voices*, including internal and external voices, very carefully and closely and only when they think differently and radically (i.e., pursue out-of-the-box thinking). Examples of these "voices" include the voice of the customer, voice of the process, voice of the investor, voice of employees, voice of quality, voice of standards, voice of partners, voice of regulators, and voice of competitors. These nine "voices" can be heard very loud and clear in the manufacturing and service, marketing and sales, human resources, finance, and information technology core chapters. When these nine "voices" are heard together, they bring attention to new perspectives and creative conflicts, forcing new thinking that leads to new solutions (i.e., best-of-breed solutions). Listening to the collective voice of many stakeholders at once will have a greater impact than listening to one voice at a time in isolation, because the collective voice requires a balanced approach after considering all party's concerns. A discovery of best-of-breed solutions combined with analysis of outside-in views (i.e., views of stakeholders about company management) and inside-out views (i.e., views of company management about stakeholders) can help in developing best practices by promoting new and clearer thinking.

Both corporate governance and corporate ethics lay a strong foundation for corporate management. The stronger the foundation in governance and ethics, the better the performance by corporate management. Both corporate governance and corporate ethics support corporate management. That is,

$$\text{Corporate governance} + \text{corporate ethics} = \text{corporate management}$$

Exhibit 1 shows the linkage between corporate governance, ethics, and management through best practices.

This book is based on information from authoritative sources including (1) the Organization for Economic Co-operation and Development's (OECD's) *Principles of*