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## Strategic Governance and The Changing Role of The IRO

By Mark Sickles

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# Strategic Governance™ And The Changing Role of The IRO

BY MARK W. SICKLES

*Left to their own devices, too many companies fail to install effective governance practices that can make them more competitive.*

(Paraphrase of a Jack Welch statement from *BusinessWeek*, July, 2007)

**T**HINK ABOUT THIS AS IT APPLIES TO YOUR FIRM: Do you think your CEO knows how to build a board of directors that complements the top management team's individual and collective profiles? Can he or she leverage this tailored board as fiduciary, advisor, overseer and advocate to enhance management's ability to formulate and implement winning strategies? Does your CEO utilize available tool kits to create a director-officer dynamic producing strategic assets, sustainable competitive advantage, and long-term shareholder value? These questions are being asked in various ways more and more today by analysts and investors looking beyond the traditional numbers.

These same questions are entirely consistent with a new notion of *strategic governance*™ that is embedded in a principle-based system of questions — questions originally designed for boards of directors — that security analysts are beginning to ask IROs and CFOs, thereby significantly increasing the transparency of information essential to sound investment decision-making.

Companies providing the right answers to these questions will be revealed as superior investments compared to alternative investments of comparable risk. Why? Because the answers to these questions reveal whether or not *strategic governance* —

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governance that causes long-term shareholder value — is present or missing inside the boardroom when directors and officers interact to fulfill their common cause on behalf of employees, customers, and shareholders: building a great place to work, buy and invest.

The ability to determine the presence or absence of strategic governance “inside the boardroom” is of equal value to both the sell-side and buy-side analyst because, in either case, this ability enables the analyst to function as a strategic asset and competitive advantage, another new concept essential to your company’s long-term success in the capital markets.

## Emerging IRO — Analyst Dynamic

This emerging dynamic between analysts and corporate officers spotlights what analysts and corporate directors have always had in common: When *either* of them asks questions of management, management always wants to have a good answer. In our increasingly transparent business environment, enlightened analysts are as committed to functioning as strategic assets and competitive advantages as enlightened directors are, understanding that — when equipped with this new system of questions — they can help directors and officers achieve the common cause of long-term shareholder value.

This growing movement towards a common language, common ground, and common cause for the inextricably linked fields of corporate governance, long-term shareholder value, and investment decision-making is the essence of strategic governance, representing a breakthrough opportunity for CEOs, CFOs and IROs to create a new type of competitive advantage for their enterprise.

Competitive advantage is the product of strategy: An integrated and coordinated set of commitments and actions designed to first develop strategic assets and then leverage those assets to produce sustainable, superior returns. Through the combined efforts of such organizations as NYSSA, NIRI-NY and FEI, security analysts, IROs, and CFOs are sharing a common communication tool kit to collectively analyze, assess, and report on managerial competence and the resulting soundness and integrity of the firm.

This is the same tool kit already introduced to enlightened corporate directors through the National Association of Corporate Directors in New Jersey and currently being shared with corporate directors nationwide. When used effectively, this tool kit is a unique opportunity for CEOs, CFOs and IROs to significantly increase the degree of integration and coordination between analysts, officers, and boards of directors, thereby producing a

key characteristic of strategy through means that are rare, valuable, difficult to imitate and, in turn, sources of sustainable competitive advantage. All that’s missing is effective action. Creating this effective action is the new role of the IRO.

## Not Just Telling the Story

In the past, one could argue that the role of the IRO has essentially been to *tell* a story about the company that is pleasing to investment decision-makers. But in the new world of strategic governance, the role of the IRO is carried out “upstream,” helping management *make* a story worthy of being told — a story of director and officer competence utilized to create organizational soundness and integrity. Such as:



**TO HELP DIRECTORS AND OFFICERS PRODUCE THIS ORGANIZATION OF COMPETENCE, SOUNDNESS, AND INTEGRITY, ENLIGHTENED IROs MUST SKILLFULLY ASK MANAGEMENT THE SAME SYSTEM OF QUESTIONS BEING ASKED BY ENLIGHTENED BOARDS AND ANALYSTS.**

*We have integrated our organizational design with our business strategy. Specifically, we aligned our organizational structures with our business goals and shared values. We created a great place to work for a great workforce. We developed our staff, ensuring they have the skills and styles to manage our business systems to deliver superior value to our customers that — in turn — delivers superior value to our shareholders. In doing so, our workforce became a source of sustainable competitive advantage that transformed our company into a great place to buy and invest.*

To help directors and officers produce this organization of competence, soundness, and integrity, enlightened IROs must skillfully ask management the same system of questions being asked by enlightened boards and analysts. These questions fall into five interdependent categories: Strategy, Great Place to Invest, Great Place to Buy, Great Workforce, and Great Place to Work. Here are the critical elements:

## I. Strategy

1. What are the firm's key integrated and coordinated set of commitments and actions designed to first develop strategic assets and then, leverage those assets to produce long-term shareholder value, thereby meeting the end goal of sustainable competitive advantage?
2. What is the nature and degree of interdependence between the firm's strategy, shared values, structure, systems, skills and styles, and how does this interdependence create sustainable competitive advantage?

## II. Great Place To Invest

1. Who are the firm's competitors for capital?
2. How will the firm manage capital spending and operating income - interdependently, as a system - to deliver superior levels of shareholder value that are sustainable over the long-term?

## III. Great Place To Buy

1. What is the firm's value discipline for each appropriate business entity? (A prioritized mixture of low price, leading products, and tailored services)
2. Who are the firm's competitors for customers and what are their approaches?

## Business Model for Strategic Governance




3. Why and how is the firm's approach better?

## IV. Great Workforce

1. How effective is the linkage between the strategic planning process and (a) the selection and recruitment process and (b) the training and development process?
2. How effective is the linkage between the strategic and operating planning processes and (a) the performance management process and (b) the compensation process?

## V. Great Workplace

1. What is the firm's percent of unwanted workforce turnover?
2. To what degree does the firm's workforce freely give discretionary effort?

By taking a leadership position in asking these questions, IROs will help create effective actions producing long-term shareholder value...and help produce a great story to tell. This will position the CEO and IRO to have favorable responses to these same questions when asked by enlightened boards and analysts, respectively. In playing this role, the IRO will increasingly serve as a strategic asset and critical source of competitive advantage to the firm. 

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**Mark W. Sickles** is principal of Mark W. Sickles, LLC. He founded and is head of the New Jersey Chapter of NACD, and is an advisory board member of Drexel University's Inside the Boardroom and Rutgers University's Prudential Business Ethics Center. He can be reached at 973-424-1100 or e-mail: [mark@nacdnj.org](mailto:mark@nacdnj.org). Web site: <http://www.markwsickles.com>.