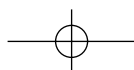
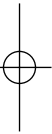
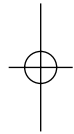
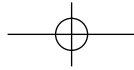




CORPORATE MANAGEMENT,  
GOVERNANCE, AND ETHICS  
BEST PRACTICES





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BEST PRACTICES

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S. RAO VALLABHANENI, CBM, CABM



ASSOCIATION OF  
PROFESSIONALS  
IN BUSINESS MANAGEMENT

*Association of Professionals in Business Management*



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Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

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***Library of Congress Cataloging-in-Publication Data:***

Vallabhaneni, S. Rao.

Corporate management, governance, and ethics: best practices/S. Rao Vallabhaneni.

p. cm.

Includes index.

ISBN 978-0-470-11723-1 (cloth)

1. Management. 2. Corporate governance.

3. Business ethics. I. Title.

HD31.V3162 2008

658—dc22

2007033365

Printed in the United States of America.

10 9 8 7 6 5 4 3 2 1

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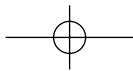
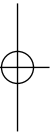
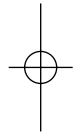
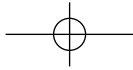
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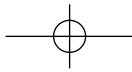
*Corporate Management, Governance, and Ethics Best Practices* was written to provide a one-stop, comprehensive reference source for corporate business practitioners and government employees worldwide. It takes a “big picture” approach to the subject matter and compiles best practices to show *what* the 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:



## xii Preface

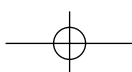
- Business practitioners working for profit corporations, regardless of the business, function, industry, or country
- Government agency heads and employees working at the federal (central), state (province), or local level, regardless of the country
- Management consulting firms and accounting firms 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.

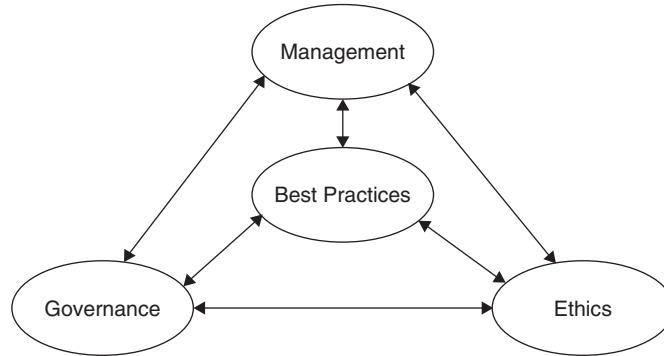
Organization's management can discover best-of-breed solutions only when they listen to various *stakeholder voices*, including internal and external voices, very carefully and closely and only when they think differently and radically (i.e., pursue out-of-the-box thinking). Examples of these "voices" 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,

Corporate governance + corporate ethics = 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*



**EXHIBIT 1** LINKAGES BETWEEN CORPORATE GOVERNANCE, ETHICS, AND MANAGEMENT

*Corporate Governance* ([www.oecd.org](http://www.oecd.org)), (2) Business Roundtable's *Principles of Corporate Governance* ([www.businessroundtable.org](http://www.businessroundtable.org)), (3) the National Association of Corporate Directors ([www.nacdonline.org](http://www.nacdonline.org)), (4) the Committee of Sponsoring Organizations (COSO) of the Treadway Commission ([www.coso.org](http://www.coso.org)), (5) the American Institute of Certified Public Accountants ([www.aicpa.org](http://www.aicpa.org)), (6) the Institute of Internal Auditors ([www.theiia.org](http://www.theiia.org)), (7) the U.S. Government Accountability Office (GAO, previously known as General Accounting Office), which issues reports to the U.S. Congress ([www.gao.gov](http://www.gao.gov)), (8) the U.S. Department of Commerce's National Institute of Standards and Technology (NIST) Special Publications ([www.nist.gov](http://www.nist.gov)), (9) the U.S. Department of Defense ([www.defenselink.mil](http://www.defenselink.mil)), (10) *Gatekeepers: The Professions and Corporate Governance* by John C. Coffee, Professor of Law at Columbia University Law School and Director of its Center on Corporate Governance ([www.oup.com](http://www.oup.com)), (11) the Project Management Institute's (PMI's) *A Guide to the Project Management Body of Knowledge (PMBOK Guide)* ([www.pmi.org](http://www.pmi.org)), (12) the American Marketing Association (AMA), ([www.ama.org](http://www.ama.org) and [www.marketingpower.com](http://www.marketingpower.com)), and (13) *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment* by Robert S. Kaplan and David P. Norton ([www.hbsp.harvard.edu](http://www.hbsp.harvard.edu)).

Organizations, both private and public (e.g., the U.S. Department of Defense and its defense contractors, the U.S. Department of Commerce, and other governmental agencies), can use these best practices as a starting point and adjust them to their specific needs by adding or removing best practices to fit specific organizational standards or industry standards. This is because best practices are universal and shareable regardless of an organization's mission and regardless of national borders. The best practices repository should be kept up to date with best practices' constant evolution as organizations research them and learn them from other organizations.

One of the highlights of this book is the way it properly defines the roles, responsibilities, and reporting relationships of the various C-level executives. Improper definition or practice of employee reporting relationships at any management level is often deeply

rooted in corporate governance, control, and ethical problems. Improper reporting relationships, especially between and among the C-level executives (e.g., CEO, CFO, CIO, COO, CAO, CAE, and CMO), create control-related problems and pose ethical dilemmas due to conflict of interest, lack of separation of duties, and lack of independence and objectivity. Incompatible job functions and faulty separation of duties can lead to fraud, collusion, and other irregularities. Corporate goal congruence is at risk when individual goals and interests dominate and conflict with the goals of the corporation. Proper organizational structure and employee reporting relationships can enforce clear lines of responsibility and accountability throughout the organization.

#### ETHICAL BEHAVIOR VERSUS UNETHICAL BEHAVIOR

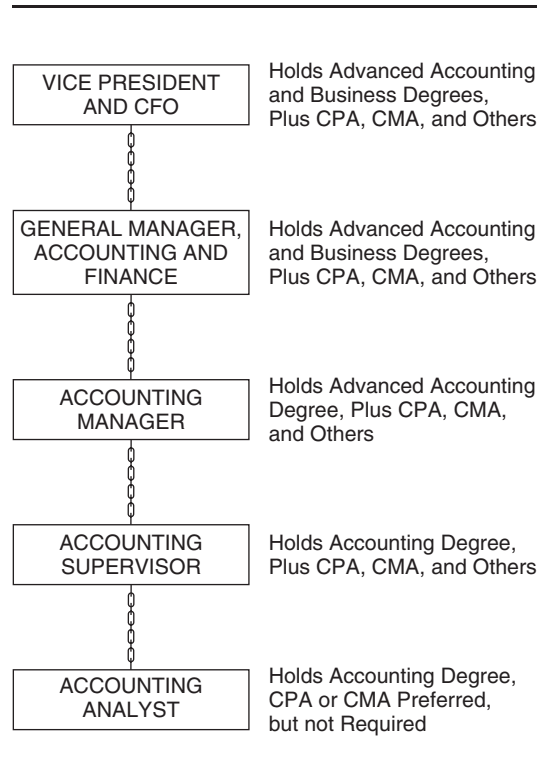
- Nonconflicting roles and responsibilities can lead to ethical behavior
- Conflicting roles and responsibilities can lead to unethical behavior
- Employees, managers, executives, investors, government regulators, and the general public (the society) all do care about business ethics although in varying degrees and magnitudes due to their different roles and job duties.

We are establishing new knowledge standards for the business management profession with the introduction of a new concept, the chain of knowledge, which is similar to the chain of custody used with regard to legal evidence. The principle of the chain of custody holds that evidence should be collected, protected, and retained intact at all times as it moves from one investigator to another to lawyers to the courts. Similarly, the principle of the chain of knowledge holds that knowledge should be acquired, maintained, and applied continuously and consistently as an employee moves up the management hierarchy of the organization. This requires that (1) lower-level employees possess the basic knowledge, skills, and abilities (KSAs) related to a given business function, and (2) the higher-level employees possess the advanced KSAs relating to the same function, so that a common thread of knowledge runs through the entire function. The chain of knowledge should be as strong as possible, since weak links can be fatal to a chain. As the employee moves up the management hierarchy, more emphasis is placed on soft skills and less emphasis on hard skills.

#### EXAMPLES OF SOFT SKILLS AND HARD SKILLS

Soft skills include written/oral communication, interpersonal, qualitative (content and context analysis), implementation, listening, negotiating, leadership, and teamwork skills.  
Hard skills include analytical, technical, technological, mathematical, quantitative, problem-solving, decision-making, deductive/inductive reasoning, and functional skills.

The primary goal of the chain of knowledge is to identify knowledge-mismatch employees at all levels of the organization in order to improve their core knowledge competencies. Because best practices are derived from a wealth of knowledge base, understanding and implementing the best practices are part of the chain of knowledge as it can improve both the employees' and the organization's performance levels. The



**EXHIBIT 2** CHAIN OF KNOWLEDGE CONCEPT APPLIED TO THE FINANCE MANAGEMENT HIERARCHY

chain of knowledge helps in creating best-in-class employees by establishing a common base of knowledge among and between employees.

The chain of knowledge concept applies to employee reporting relationships and employee job performance in that lower-level employees who share given KSAs should be reporting to middle-level employees with KSAs, while the middle-level employees, in turn, report to higher-level employees with the KSAs corresponding to their level, thereby keeping the chain of knowledge relevant, strong, and effective. Improper implementation of the chain of knowledge can lead to employee performance deficiencies, communications problems, and expectation gaps. Exhibit 2 presents a sample chain of knowledge for the finance function.

Another highlight of this book is its listing of 26 risk types for the Chief Risk Officer to take account of in managing a total business risk-management program. This comprehensive approach to risk management makes a good deal of business sense, considering the many uncertainties facing organizations today because of changes in economic, political, cultural, regulatory, technical, and global business factors.

Because organizations have a legal and ethical obligation to comply with various laws, rules, and regulations, we have provided a sample collection of applicable laws, rules, regulations, standards, or principles for them to use as a reminder for checklist purposes. Compliance with laws, rules, and regulations will reduce the possibility of

reputation (image) risk, resulting from adverse publicity in the news media. Applicable laws, regulations, standards, or principles are included in each chapter of this book.

The current *research methodology* includes a review of published documents, Web sites, U.S. government agency reports, best-practices research studies, benchmark reports, white papers, symposiums, forums, textbooks, trade books, public domain information, information from professional associations and organizations, informational papers, and personal information. Future editions will draw on greater involvement by many Certified Business Managers (CBMs) and Certified Associate Business Managers (CABMs) to achieve wider participation, distribution, and sharing of global best practices for years to come. The CBM is a masters-level professional credential based on an MBA curriculum and consisting of four-part, 16-hour rigorous exams. The CABM is a bachelors-level professional credential based on a pre-MBA curriculum and consisting of a rigorous one-part, four-hour exam.

The Association of Professionals in Business Management (APBM) has developed a Common Body of Knowledge for Business (CBKB), which is organized into ten learning modules. The CBKB describes the exam content specifications, which serve as a basis for the CBM and CABM exam questions and for the development of exam preparation guides. This best practices book is linked to the ten learning modules for maximum integration. This linkage is beneficial to potential CBMs during their study for the CBM exams, and later for the real CBMs and non-CBMs to use the best practices book as a desk reference source when needed. The CBM credential can transform a business specialist into a business generalist due to its focus on general management KSAs.

APBM wants to make this best practices book a landmark, a legendary research project representing a single and collective voice for the entire business management profession around the world. Today, more than ever, there is a need for a single and collective voice for the entire business management field, but disparate and disconnected professional associations continue to represent the various specialized business functions, such as operations management, supply management, marketing, quality, human resources, accounting, fraud auditing, treasury, finance, IT, and project management. An integrated and umbrella-type professional association, such as the APBM, lends credibility and sends a positive signal to all stakeholders—such as government regulators, investors and creditors, stock/capital markets, legal system, corporate management and employees, labor unions, vendors and suppliers, media/press, consultants and contractors—and to the general public. To this end, APBM symbolizes self-regulation by the profession.

APBM, which was established to represent business managers and executives worldwide, is akin to American Medical Association representing doctors, American Bar Association representing lawyers, and American Institute of Certified Public Accountants representing public accountants in the United States.

APBM is a not-for-profit higher-education professional organization with the mission of making business management a profession, similar to law, medicine, engineering, and accounting. APBM accomplishes its mission through certifications, continuing education, a code of professional ethics, and professional standards through best practices research.

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With no bias intended and for the sake of simplicity, the pronoun “he” has been used throughout the book rather than “he/she” or “he or she.”

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January 2008

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CORPORATE MANAGEMENT,  
GOVERNANCE, AND ETHICS  
BEST PRACTICES



