



Risk Management – Enhancing the Partnership of the Board and the CIO

Written by Bill Stuckey

Article Highlights

- Corporate boards must stay focused on the ultimate goal to earn continued increases in long-term shareholder value.
- Boards must demand new approaches from CEOs and CIOs on risk management, legislative compliance and the creation of processes that will efficiently and effectively grow with the company.



Too many investors and corporate leaders believe that coping with and implementing stringent control requirements, actually hurts the competitiveness of corporate America. In today's hyper-competitive global markets, the prevailing belief is that diverting funds from developing new intellectual property to compliance is the wrong action at the wrong time. Many point to the reduction in IPOs introduced on the US Stock Exchange as well as public companies going private to avoid recently enacted compliance requirements as events supporting this premise.

There is no question that there are several challenges associated with this complex issue. However, corporate boards must stay focused on the ultimate goal to earn continued increases in long-term shareholder value. The fundamental need for improved internal operational controls and mitigating corporate risks must not be compromised. While there is ample justification for the push to redefine the process, the need for controls must not be undermined.

There seems to be "enlightened" boards of directors helping guide corporations through the minefields created during the debacles with Enron, WorldCom, Tyco, Cendant, etc. These directors seem to realize that corporate America is being held to a standard, not unlike that of quality in manufacturing – it is such an expected deliverable by the public it is hardly discussed. They recognize that when quality, "due diligence" slips, the damage done to the company's reputation, stock price, shareholder value and overall goodwill can become extreme. The attention they pay to assuring accuracy in financial reporting,

maintaining "single versions of the truth in information," while moving the company forward providing improved earnings, highlights the difference in their successful leadership style versus the "also rans." These boards must be demanding new approaches from both the CEOs and CIOs on risk management, legislative compliance and the creation of processes that will efficiently and effectively grow with the company. It has to be a critical topic in every board meeting. If this is the case, it provides those CIOs, capable of communicating and interfacing with boards of directors and other senior executives, the "often sought, but rarely provided" opportunity to become a true executive leader and business partner.

Over the last several years, I have had the opportunity to talk with a significant number of fellow Chief Information Officers, as well as CEOs and members of public, as well as private, company boards. It was interesting in that I did not need to prompt the audience - the topic of conversation naturally led to a common concern of all parties - the added work load and associate expense across all functional areas of the business. Complying with newly enacted legislative reporting and control requirements was substantial. There was a major follow-on concern voiced during these conversations, which may be the real tip of the iceberg – "What's next?" While the theme was pretty consistent, the engagement by the individual parties, the approach taken for compliance, the expense incurred and the use of technology to mitigate the companies risk associated with these new requirements was as varied as the companies themselves.



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While I was able to fully grasp both the business and technical approaches being taken by the CIOs enabling their respective companies to meet recent legislative acts, I was astounded at the lack of "leading edge" (not bleeding edge) approaches being pursued. A majority of the CIOs I spoke to have a significant number of their technical resources tied up in producing reports to support manual controls for compliance and audit ability. When asked why they were not embracing stable, yet somewhat new technological solutions, the responses were pretty consistent- "Our CEOs and the boards are not prepared to invest in those approaches given the time and expense necessary to implement new solutions!" Some CIOs answered my question with a very troublesome, "What new technologies and approaches?"

I have spoken to a large number of CEOs who do not either remember, or believe a meaningful, business presentation has been made to either the Executive Committee or their board of directors, providing alternative approaches to help mitigate the risks associated with non-compliance. Not having sufficient personal access to enough members of boards to form an educated opinion, or express knowledge of their inner workings, I asked a close business mentor¹ for his insights into the critical issues facing most board of directors surrounding "Risk Management and Mitigation". The answer I received was both promising and deeply concerning:

"Risk management is a key topic of concern to the majority of boards. However, since the number of technically knowledgeable people sitting on boards is limited, very few boards are provided with the information, in a digestible format, to look upon technology and automation as one of the key activities central to their scheduled meetings. In most cases, it is considered an 'operational' issue which the CEO and their management team must address and provide status updates as needed to the board members." Many boards and unfortunately, more CIOs, have not yet grasped the significance of these business compliance and control issues. The use of "boring" manual checks, as opposed to automation, increases error probability – errors of omission as opposed to inclusion

due to repetitive tasks best assigned to computers versus employees. The storage and lack of accurate definitions of duplicate data resulting in multiple versions of the "financial truth" are the "significant events" waiting to undermine the credibility of the business. These "points of error inclusions", and many more, must be dealt with using new approaches to information systems solutions and delivery. The processes of the past, which do not address these issues, will not provide the information roadmap to the future. The technology exists, the processes are proved, measurable overall costs are significantly reduced and the speed of incorporation into the existing business and technical environment can be measured in weeks and months, not years.

Public demands for information regarding their personal portfolio investment performance and events, which may modify the value of that investment, are growing exponentially each year. Many board members and executives understand this drive for corporate transparency by the shareholders. These groups are striving to ensure their corporate information operations are focused on the most important leading indicators regarding risks and controls. Directors want to understand how the CIO organization is supporting the CEO in his or her leadership efforts. Furthermore, many boards appear to be embracing the need to recognize and accept their responsibility to understand what is being done in the back room to facilitate its level of engagement in the boardroom.

This increased focus by the boards provides an exciting opportunity for CIOs to elevate their level of personal leadership in the company. While the CIO is generally accepted as an integral part of the executive leadership team, the current environment provides an excellent opportunity to increase his or her level of visibility to the boards. CIOs can achieve this by ensuring the highest standards of information accountability and integrity are the cornerstones of their development activities.

We must continuously recognize the serious need to improve our use of internal controls

in corporate America. Before we start salivating over the prospect of overhauling new legislation, we need to embrace the fact that the principles of the act are justifiably sound. Our efforts to restore confidence in the investment community are still in its infancy. In this regard, we should continue to explore opportunities to bridge the gap between operations and controls. It is now time to re-emphasize the need to link the back room with the boardroom.

Today's senior business executives and the boards of directors are rapidly assuming new leadership roles. They are expanding their scope of influence by questioning past approaches to issue resolution, demanding rapid "ad-hoc" access to more information in clear concise terms, and becoming more "hands-on" with operational processes. Are you embracing this new leadership role and focus? Boards are also starting to demand more leadership and engagement from their company's CIO. Are the CIOs prepared to step into this new role?

This is also an opportunity for CIOs to assume a new proactive role of leadership and help create a sustainable business legacy – become the automation business team leader of tomorrow. Break away from the pack. The time is right, seize the moment.

References

¹ Past CEO of multiple private and public corporations, currently member of the board of directors for three top S&P 100 companies, guest speaker and executive mentor and educator



About the Author



Bill Stuckey

William (Bill) Stuckey is an Operating Partner with Arsenal Capital Partners, an industry-focused private equity company. His primary responsibility is to increase the value and support provided to each Arsenal portfolio business by their Information Technology Departments.

He has substantial experience as a CIO and CTO. Bill is a high- performance, results driven senior executive with a career spanning 36 years demonstrating visionary leadership and distinguished performance in Information Technology (IT).

Bill has a proven background as a world-class executive. He understands how to link the importance of IT into the fabric of the business enterprise. He provides a unique set of experiences to the board. He understands the importance of linking the backroom to the boardroom.

Bill has worked for several Fortune 500 companies such as General Motors, United Technologies and Lucent Technologies. He has also founded, or been associated with, several small technology companies. In addition to his broad range of company experiences, Bill has substantial global experience, specifically in North America, Asia and Europe.

Bill has more than 18 years of senior leadership and direct management experience of multi-site, national and international IT development and operations, as well as engineering development processing facilities across multiple industries. He is an expert in the development of secure electronic storage, access and delivery of highly sensitive information across multiple industries. Bill has served as an advisor to multiple industries on Sarbanes-Oxley compliance, privacy laws, security systems, strategic and operational development and deployment.

Bill earned a Bachelor of Science (BS) degree from Ohio State University. He also has participated in executive development programs at the University of Chicago.

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XCEO, Inc.

4800 Great America Pkwy.
Suite 307
Santa Clara, CA 95054

Phone

408.855.0000

Fax

408.855.0004

Media Contact

Belen Gomez
Brand Manager
belen@xceo.net

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