

Quality & Transparency: Key for Corporate Reputation

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- ❖ Monitoring application of standards and Rules for Governance
- ❖ Triggering An Explosion of Innovation
- ❖ Managing risk to secure and enhance corporate brand

Transparency – key to good governance and market confidence

Transparency means that decisions taken and their enforcement are done in a manner that follows rules and regulations. It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. Transparency ensures that enough information is provided and that it is provided in easily understandable forms and media.

Good Governance

"The exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises of the mechanisms, processes and institutions, through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences." - UNDP
Two aspects of this definition merit closer attention.

Aspect 1: The concept of governance is broader than government

Governance is normally described as involving government, civil society and the private sector in managing the affairs of a nation, which means that the responsibility for managing the affairs of a nation is not limited to government alone, but includes a wide variety of stakeholders including: state government, local governments; the private sector; non-governmental and community-based organizations (NGOs/CBOs), the media, professional associations and other members of civil society. And each actor has a specific role to play based on its source of legitimacy and comparative advantage.

Aspect 2: The concept of governance focuses on institutions and processes

In the context of allocating resources priorities need to be established through processes that involve all stakeholders in decision-making. Transparency in decision-making processes and in institutions has the potential to become a central strategy for engaging stakeholders and improving the quality of overall governance.

In the present context, therefore, good governance describes a situation in which the mechanisms, processes and instruments for decision-making and action facilitate greater civic engagement through a participatory approach.

Transparency: Core principle of Good Governance

Good governance has major characteristics like participation, rule of law, transparency, responsiveness, equity and inclusiveness, effectiveness, efficiency, accountability and strategic vision and consensus orientation. It assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making and implementation. It is also

responsive to the present and future needs of society, balancing between growth and distribution, present and future resource use.

Transparency is widely recognized as a core principle of good governance. Transparency means sharing information and acting in an open manner. Free access to information is a key element in promoting transparency. Information, however, must be timely, relevant, accurate and complete for it to be used effectively. Transparency is also considered essential for controlling corruption in public life.

Transparency and Civic Engagement

Civic engagement is understood as the active participation of citizens in public life and their contribution to the common good. The level of trust in the government and public agencies is a key factor that determines the extent and quality of civic engagement. Loss of trust can lead to disengagement of citizens and discourage participation of communities as well as the private sector in functions such as public services delivery, or even in democratic processes such as elections.

Trust in public bodies is affected by two things:

- the quality of services that individuals and their families receive; and
- how open and honest organizations are about their performance, including their willingness to admit to and learn from their mistakes.

Transparency helps not only to inform the public about development ideas and proposals, but also to convince citizens that the public agencies are interested in listening to their views and responding to their priorities and concerns. This in turn enhances the legitimacy of the decision-making process and strengthens democratic principles.

Transparency also influences civic engagement in a more direct manner. Responsiveness often holds the key to successful involvement of citizens and the private sector. Governments that share their assessments and plans with citizens and seek their views on a regular basis can be far more effective in implementing development programmes with the participation of stakeholders.

Thus transparency can help to stimulate active engagement of the private sector and civil society in public affairs, thereby confirming the changed role of the government as an enabler and facilitator of access to, rather than provider and controller of, goods and services.

Transparency of Information & Disclosure

"A popular Government without popular information or the means of acquiring it is but a Prologue to a Farce or a Tragedy or perhaps both. Knowledge will forever govern ignorance, and a people who mean to be their own Governors, must arm themselves with the power knowledge gives."

-James Madison

Information is crucial to good governance as it reflects and captures government activities and processes. Every citizen of the state has right to access information under the control of public authorities consistent with public interest. The main objective of governments providing information to its citizens is not only to promote openness, transparency and accountability in administration, but also to ensure participation of people in all matters related to governance.

All developed countries have recognised the need for freedom of information and most of them have passed the FOI Act. In developing nations or nations in transition, less than 40% of them have passed these laws. Most of these FOI laws have been passed in the last decade. In India, the Union Government and state governments of Goa, Tamil Nadu, Karnataka, Rajasthan, Delhi and Maharashtra have passed Right to Information laws in the last few years.

Financial Transparency in Government

Accountability and transparency are indispensable pillars of good governance that compel the state and civil society to focus on results, seek clear objectives, develop effective strategies, and monitor and report on performance. Through public financial accountability and transparency, governments can achieve congruence between public policy, its implementation and the efficient allocation of resources. Lack of financial accountability could lead to inefficiency, waste, and pilferages, and even impede development.

The three components of the financial transparency cycle are:

- Records Management : Creation, Maintenance and Use Disposition;
- Accounting: Planning, Budgeting and Expenditure, Internal Control and Internal Auditing, and Financial Reporting;
- External Auditing: Compliance, Value-for-Money and Certification Auditing.

Good governance requires that all the actors engaged in the governance process follow well-defined codes of conduct and their public affairs are subject to scrutiny by the public under legally stipulated procedures.

A truly global model of corporate governance would need to recognise alternative concepts including:

- the networks of influence in the Japanese Keiretsu
- the governance of state-owned enterprises in China, where the China Securities and Regulatory Commission (CSRC) and the State-owned Assets Supervision and Administration Commission (SASAC) can override economic objectives, acting in the interests of the people, the party, and the state, to influence strategies, determine prices, and appoint chief executives
- the partnership between labour and capital in Germany's co-determination rules
- the financially-leveraged chains of corporate ownership in Italy, Hong Kong and elsewhere
- the power of investment block-holders in some European countries
- the traditional powers of family-owned and state-owned companies in Brazil
- the domination of spheres of listed companies in Sweden, through successive generations of a family, preserved in power by dual-class shares
- the paternalistic familial leadership in companies created throughout Southeast Asia by successive Diaspora from mainland China
- the governance power of the dominant families in the South Korean chaebol, and
- the need to overcome the paralysis of corruption from shop floor, through boardroom, to government officials in the BRIC and other nations.

The forces for convergence in corporate governance are strong. At a high level of abstraction some fundamental concepts have already emerged, including the need to separate governance from management, the importance of accountability to legitimate stakeholders, and the responsibility to

recognize strategic risk. These could be more widely promulgated and adopted. But a global convergence of corporate governance systems at any greater depth would need a convergence of cultures and that seems a long way away.

Market reporting

Successful organisations recognise that greater transparency and clear explanation of the rationale for business strategies will be critical in boosting market confidence and securing access to limited capital in the wake of the financial crisis.

Crucial considerations include effective explanation of the risk profile and the underlying strategy and implications. Smart firms are therefore looking beyond basic compliance to provide real insights into the appetite for risk, the priorities and assumptions governing risk management and how risk influences key business decisions.

Forward-looking companies are also looking closely at how to influence and respond to planned changes in market reporting to ensure they reflect the realities of their business and provide more relevant and reliable information for analysts and investors.

- Competitive transparency and disclosure
- Compliance with regulations and laws
- Effective valuation of assets and liabilities
- Developing and reporting non-financial measures

Protecting information and intellectual property:

Trustworthiness is paramount to consumers, employees, collaborators, and shareholders, and the current regulatory patchwork leaves gaps in companies' information security. Compliance alone doesn't arm businesses against increasingly sophisticated technologies or forms of organized digital crime, and neither does simply having an information security policy that goes untested. Today, the risk of unintentional breaches is on the rise. Greater data mobility and increased collaboration around the globe are redefining the contours of accountability for information.

Monitoring application of standards and Rules for Governance

Corporate Governance in India

The subject of corporate governance leapt to global business limelight from relative obscurity after a string of collapses of high profile companies. Enron, the Houston, Texas based energy giant, and WorldCom, the telecom behemoth, shocked the business world with both the scale and age of their unethical and illegal operations.

Worse, they seemed to indicate only the tip of a dangerous iceberg. While corporate practices in the US companies came under attack, it appeared that the problem was far more widespread. Large and trusted companies from Parmalat in Italy to the multinational newspaper group Hollinger Inc., revealed significant and deep-rooted problems in their corporate governance. Even the prestigious New York Stock Exchange had to remove its director, Dick Grasso, amidst public outcry over excessive compensation. It was clear that something was amiss in the area of corporate governance all over the world.

Corporate governance has been a central issue in developing countries long before the recent spate of corporate scandals in advanced economies made headlines. Indeed corporate governance and economic development are intrinsically linked. Effective corporate governance systems promote the development of

strong financial systems – irrespective of whether they are largely bank-based or market-based – which, in turn, have an unmistakably positive effect on economic growth and poverty reduction.

Legal environment, ownership patterns and Corporate Governance

The legal system of a country plays a crucial role in creating an effective corporate governance mechanism in a country and protecting the rights of investors and creditors.

The legal environment encompasses two important aspects – the protection offered in the laws (*de jure* protection) and to what extent the laws are enforced in real life (*de facto* protection).

Both these aspects play important roles in determining the nature of corporate governance in the country in question. Recent research has forcefully connected the origins of the legal system of a country to the very structure of its financial and economic architecture arguing that the connection works through the protection given to external financiers of companies – creditors and shareholders.¹¹ Legal systems in most countries have their roots in one of the four distinct legal systems – the English common law, French civil law, German civil law and Scandinavian civil law. The Indian legal system is obviously built on the English common law system. Researchers have used two indices for all these countries – a *shareholder rights index* ranging from 0 (lowest) to 6 (highest) and a *rule of law index* ranging 0 (lowest) to 10 (highest) – to measure the effective protection of shareholder rights provided in the different countries studied. The first index captures the extent to which the written law protected shareholders while the latter reflects to what extent the law is enforced in reality.

The Rule of law index is another story. Here the Scandinavian-origin countries have an average score of 10 – the maximum possible – followed by the German-origin countries (8.68), English-origin countries (6.46) and French-origin countries (6.05). Most advanced countries have very high scores on this index while developing countries typically have low scores. India, for instance has a score of 4.17 on this index – ranking 41st out of 49 countries studied – ahead only of Nigeria, Sri Lanka, Pakistan, Zimbabwe, Colombia, Indonesia, Peru and Philippines. Thus it appears that Indian laws provide great protection of shareholders' rights on paper while the application and enforcement of those laws are lamentable. This difference in protection of shareholders' rights has led to completely different trajectories of financial and economic developments in the different countries.

The primary difference between the legal systems in advanced countries and those in developing countries lies in enforcement rather than in the nature of laws- in-books.

Triggering an Explosion of Innovation



For almost 100 years of our quality journey, we increasingly pampered our customers by giving them what they wanted. Customers now assume that quality is a given. Further, in our present information age, customers are more aware of competitive suppliers, as well as suppliers with poor performance. The interdependent and competitive global economy one must find true competitive advantages based on features and capability rather than quality alone. Delivering a solution that is unique to each customer is becoming more important than delivering a standard solution with virtually perfect quality. Instead of managing the cost of goods or services, businesses will need to manage growth by offering innovative solutions to customers. **The quality of innovation becomes a differentiating factor.** Thus the businesses will be moving from quality improvement to innovation improvement.

Interestingly, innovation has become a global issue and is being addressed by national governments. Innovation implies the use of intellectual resources--the people and their intellectual involvement, knowledge management, and new product innovations. Having been a quality professional that successfully transitioned to an innovation professional, I see a striking commonality between quality improvement and innovation. Ultimately, innovation means change, and so does improvement. **One way to understand the difference is that improvement may be a one-dimensional change, while innovation is a multidimensional change.**

The three rules of creativity:

Innovation as a process- Innovation is for everyone, and can be applied in everything. These rules for creativity are as follows:

- **Rule 1: Decide to always be creative.** Look for innovations everywhere, admire creativity, and research any topic that interests you. Learn as much as possible.
- **Rule 2: Start combining two or more items or ideas in unique ways.** Every innovation is a unique synthesis of many ideas. Analyze other innovations to see what is so different about them. Associating and combining is a natural activity for our brain.
- **Rule 3: Continually practice to become fast at combining ideas.** We must become fast thinkers by synthesizing all the information we have gathered and have fun doing it.

The five phases of the methodology :

Once we learn the creative process, we must recognize that creativity and innovation are two different things. Creativity is just an idea, invention is a prototype, and innovation is production. Unless the idea becomes a reality and is used repeatedly in creating value--and people are willing to pay for it--it isn't innovation.

- **Explore.** Today's R&D represents a little research and a lot of development. I think this is backwards. Initial research is critical to maximize innovation. Good innovation depends on excellent exploration. In other words, before developing an innovative solution, we must extend and expand our thinking based on thorough research. In the absence of solid research, products coming out of R&D will be of marginal quality in terms of design, innovation, and meeting customer expectations.
- **Develop.** Once information about customers' needs is gathered and sufficient research has been conducted, multiple innovative solutions can be quickly developed. The result is having many alternative innovative solutions to choose from rather than taking the conventional approach and developing the first (and probably only) solution.
- **Optimize.** Out of the multiple innovative solutions, the best and most economically feasible solution is selected and optimized for robust production and delivery. The solution must provide profit margins. Currently, new products often have early failures, and many businesses lose money during the introduction year. For example, any car in its introduction year is considered to be a risky purchase due to its higher-than-normal failure rate. A well-implemented optimization phase would minimize such risks.

- **Commercialize.** In transforming a creative solution to a successful innovation, excellence in marketing the solution to potential customers plays a significant role. No sales, no innovation--it's that simple. We must not be satisfied with just developing a creative product, service, or business model. For any innovation to be successful, we must also be innovative in generating revenue growth.

What to innovate?

One of the commonly asked questions about innovation is what to innovate. We must always think innovatively, i.e., identifying the market or value potential of creative ideas continually. Be an opportunist and look out for employee dissatisfaction, low-yield processes, management issues, contradictions, or conflicts. In other words, look for pain points and decide to create an innovative solution. Have faith that if a problem exists and can be vocalized, then there must be a solution. That is the opportunity for innovation. As quality professionals, we should grab such opportunities to create value innovatively. The opportunity for innovation could be procedural or technical. The opportunity could be short term or long term. The short-term opportunity corresponds to variation and derivative innovations, and the long-term opportunities relate to platform and fundamental innovations.

Summary

The quality profession has evolved from 100-percent inspection to sampling plans to Six Sigma. We must maintain our intent to help our organizations improve their financial performance. Innovation provides quality professionals with a great opportunity to contribute to corporate performance more visibly. Understanding a holistic framework will help us start our innovation journey.

- **Start with Your Customer**

Every company's enterprise view and strategy needs to start with customers. Most executives agree with this tenet philosophically, but few enterprise reinvention and enterprise risk management programs follow this in practice. This requires that executives clearly establish, articulate, and integrate: where your company intends to go and why.

- **Be holistic and systematic**

Another principle to incorporate is to be both holistic and systematic. Without a shared enterprise view to guide companies in continually changing environments, companies often get stuck by focusing on the parts instead of the whole. When competitive and organizational situations change, executives get caught working on the wrong things--on areas that used to be important but are no longer the bottlenecks.

- **Don't Forget Your Community**

A third insight--important for sustainable enterprise reinvention and effective risk management--is to systematically manage social roles. Companies are the only true economic engines for society, and strong communities are the only source of sustainable profits. When companies don't formally integrate into their communities and--instead--view themselves as separate entities, enterprise risk profiles will inevitably increase.

Integrating Enterprise Reinvention and Enterprise Risk Management

Enterprise risk management is an important tool for sustainable competitive advantage. Similar to the market and the enterprise itself, a successful enterprise risk management program requires holistic and systematic processes to support the following:

- Envision: An Enterprise strategy linked to customer needs, with defined operational implications, and well-articulated enterprise guidelines for managing risks and opportunities.
- Design: Formal risk mitigation and opportunity sensitivity analysis/monitoring/reporting.
- Build: Enterprise-wide controls, processes and infrastructure.
- Operate: Well-established personal roles and motivations for people to act in the best interests of their companies--at the enterprise level--through proper incentive structures.

For companies to successfully reinvent themselves, the enterprises can't be viewed as the sum of their parts. The enterprise overall is the goose that lays the golden eggs. Similar to a brand, it needs to be holistic, integrated and relevant--and continuously adapt through successful and accelerated enterprise projects.

To improve your company, try taking your enterprise reinvention and enterprise risk management program to the next level. Integrate "Envision-Design-Build-Operate," as detailed in the book, to achieve your objectives through a shared enterprise framework, integrated roles and responsibilities, and adaptive monitoring/sensitivity analyses. Then, holistically address risks through independent program assessments to diagnose and correct identified weaknesses and take full advantage of new opportunities.

Risk Management to enhance Corporate Brand

Given our rapidly changing and hyper-competitive business environment, there has never been a better time to reinvent your enterprise and your enterprise risk management program.

- Reduce costs of on-going risk management, fines, penalties and disruption
- Protect brand and reputation
- Compare incidents data across sites, business units or your entire business
- Improve the effectiveness and efficiency of corrective and preventative actions
- Provide instant and automatic reporting of key metrics

Effective governance is only possible through a functional system of internal control, which itself is wholly dependent on a culture of sustained and proactive corporate governance, control & enterprise risk management (ERM).

As one of the most effective means of managing compliance and avoiding the risk of non-compliance, ERM is also increasingly recognized by forward-thinking organizations as the best long-term, sustainable and cost-effective solution to meeting the compliance mandates as required by the Sarbanes-Oxley Act and the ever increasing compliance requirements companies face today.

▪ **Audit & Compliance Management**

- Compliance management is a critical component of the internal control process for any business and a prerequisite for assessing compliance with corporate performance standards. Whether it is compliance with internal corporate procedures, external regulatory requirements such as Sarbanes Oxley or compliance with industry codes of conduct such as ISO 14001, effective internal auditing is the cornerstone of compliance management and continuous improvement.

Effective compliance management will protect and enhance your brand and reputation by helping you avoid the adverse affects of non-compliance such as: litigation, fines, prosecution, bad PR, and the risks, costs, liability, and damage to brand reputation associated with non-compliance.

Key Benefits

- Improve compliance management processes
- Provide executive dashboard visibility on enterprise-wide compliance
- Provide consistent and comparable compliance information across your business

Incident Management

- The Incident Management Process manages all incidents, from workplace injuries to environmental spills through to quality deficiencies, security holes and supply chain breaches. It provides a comprehensive set of features for documenting, reporting and investigating injuries and incidents.

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Key Benefits

- Reduce incidents costs, fines, penalties and disruption
- Reduce incidents and protect brand and reputation

Performance Management

Designed to minimize and manage risk in relation to corporate objectives and strategy, this process aids decision-making, helps improve individual, departmental and business performance, and provides a 'traffic light' dashboard view of performance across your business.

Key Benefits

- Real time, traffic light visibility of performance across your business
- Quick, easy and efficient data entry, collation and reporting
- Data verification, integrity analysis and audit trails
- Easy, intuitive and flexible key performance indicator (KPI) reporting

Risk Management

- The Risk Management Process enables the identification, assessment and management of risks across your business. Sustained and proactive enterprise risk management is one of the most effective means of managing compliance, proving and improving internal control and governance and reducing the potential for shareholder loss while increasing the potential to maximize shareholder value.

Key Benefits

- Provide consistency and comparability of all risk assessments across your business
- Improve risk responses with real time and enterprise-wide risk information
- Reduce the cost and improve the efficiency of your risk management efforts
- Improve the effectiveness of your risk response and corrective and preventative action programs
- Increase the effectiveness of your decision-making, capital and resource allocations with up-to-date and enterprise-wide information on all material risks