

# SMART Governance

*Corporate Governance, Portfolio Governance,  
and the 1906 Chicago Cubs*



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## How Understanding the Relationships Between Corporate Governance, Portfolio Governance, and the 1906 Chicago Cubs Can Lead to SMART Governance.

### “You’ve Got to Be Kidding”

I can hear it now. “Okay, I can see how there may be some relationship between Corporate Governance and Portfolio Governance, but the 1906 Chicago Cubs? You’ve got to be kidding.” No. I’m not kidding. Like a couple of old major-leaguers coming off a long and hard winter, we’ll need to ease into this. Let’s start with some batting practice. Grab a bat, and let me toss you a couple of definitions.



### A Definition of Corporate Governance

This is no single, universally accepted definition of Corporate Governance. Some subscribe to a narrow definition that centers on public companies and their relationship with shareholders, while others like me prefer a broader definition that encompasses all enterprises (public and non-profit) and all stakeholders – not just shareholders. For the purpose of this discussion, the definition that we will be using is: *“An enterprise’s leadership, policy, and management systems for: defining business strategy; setting and attaining business objectives; complying with legal and regulatory requirements; establishing accountability for business results; and providing transparency and visibility to its external stakeholders.”*

### A Definition of Portfolio Governance

Like Corporate Governance, here again, there is no single, universally accepted definition. For the purpose of this discussion, the definition that we will be using is: *An enterprise’s leadership, policy, and management systems for: setting and attaining portfolio objectives; ensuring that investment resources are properly allocated; ensuring that project investments deliver value and align with the business strategy; establishing internal accountability for portfolio results; and providing transparency and visibility of key initiatives and projects to executive management.”*

### The Relationship Between Corporate Governance and Portfolio Governance

The key similarity between Corporate Governance and Portfolio Governance is that they both require *accountability, transparency, and visibility* in order to be successful. We’ll discuss this in more depth in the next section. A couple of notable differences include the purpose and focus. While Corporate Governance is primarily centered on external forces (such as attaining compliance) and external stakeholders, whereas Portfolio Governance is primarily centered internally. This includes allocating investment resources, managing performance (of a project portfolio), and internal stakeholders (executive management).

These differences suggest another key aspect of the relationship between the two, namely, that a successful Portfolio Governance System is a predecessor to a successful Corporate Governance System – particularly when a Corporate Governance System is designed to not only attain compliance, but to sustain it for the long-term. In short, if an enterprise isn’t effectively managing its internal resources and projects that affect business systems, processes, and controls, how can it confidently attest to being compliant and providing accurate visibility and transparency to external stakeholders? In fact, I’ll go so far as to say that in project-driven enterprises, a Portfolio Governance is a prerequisite to Corporate Governance.

Ok, I know all of this seems a bit heavy, so let’s take a look at the lighter-side.

### Governance and the 1906 Chicago Cubs

Governance is all about accountability, transparency, and visibility. What do they have in common with the 1906 Chicago Cubs? Plenty. Pull up a stool, grab a box of crackerjacks, and let me tell you a little story. If you’re not a baseball fan, don’t worry, I’ll keep it light. Besides, with the 2005 Major League season upon us, there is no better time to learn a new baseball analogy to share with your co-worker.

The 1906 Chicago Cubs had, what is known today as the most famous double-play combination in the history of major-league baseball: “Tinker-to-

Evers-to-Chance". Joe Tinker, playing shortstop, would at the crack of the bat, scoop up ground balls at shortstop, and with impeccable precision and timing, throw'em to his teammate, second baseman Johnny Evers, who would catch'em on the run, touch second base or tag the runner, and then rifle the ball to his teammate and first baseman, Frank Chance -- all before the hitter could reach first base. The feat, resulted in two outs for the opposing team, and is known as a double-play. In the next day's newspaper, the box score summarizing the game would make the double-play combination of "Tinker-to-Evers-to-Chance" famous, and eventually the most-celebrated in the history of baseball.

Although a hundred years have passed since Joe Tinker, Johnny Evers, and Frank Chance graced the Chicago Cubs with their dazzling teamwork, they can help us understand how to establish a winning governance system – whether it be for your Corporate Governance System or your Portfolio Governance System. In doing so, you'll also see how "Accountability-to-Transparency-to-Visibility" can become your own famous double-play combination.

With the advent of the most prolific piece of Corporate Governance legislation, the Sarbanes-Oxley Act (SOX) of 2002, CEOs and CFOs of public companies are now required to personally certify that their financial statements do not contain material errors or omissions. In addition, they must certify that they have sufficient internal controls in-place (to avoid WorldCom and Enron-like debacles). These certification requirements are intended to increase both corporate and personal accountability – and to be a catalyst for providing more transparency and visibility to investors, creditors, and market participants. Like Joe Tinker scooping up a groundball to start a double-play, governance begins with the fundamentals – accountability.

Now, with the double-play in full-motion, attention turns from accountability to providing transparency and visibility, which is the primary purpose for SOX. In fact, the act states that its purpose is: "to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes."<sup>1</sup> This essentially means providing transparency and visibility into the enterprise. By increasing transparency and visibility, investors, creditors, and market participants are better able to evaluate the

financial conditions of an enterprise and avoid surprises. In short, financial transparency and visibility are essential to investment decision-making.

To comply with SOX, particularly Section 404: Management Assessment of Internal Controls, companies are spending significant capital on: documenting their financial processes; identifying and evaluating their internal controls; and managing risks. Once compliance is attained, change becomes the enemy. Changes to product offerings, marketing and advertising systems, time-keeping systems, billing systems, accounts payable systems, etc. can all affect internal controls. Therefore, a corporate governance system must be like Johnny Evers consistently catching the ball from Joe Tinker. and making a quick and accurate throw to Frank Chance. It must be able to handle the routine, as well as the changes and variations that inevitably occur. This can be accomplished by establishing a defined and repeatable testing process – or said in baseball vernacular, an "automatic double-play".

#### SMART Governance Systems

For an enterprise to be accountable to its investors, and provide transparency and visibility to its Board of Directors and investors, its executives must be able to hold its own management team accountable, and it must have internal transparency and visibility into its entire portfolio of projects, strategic objectives, management tasks, risks, and action items. This can be accomplished by improving three key management functions inherent in governance: tasking, communication, and reporting.

Once deployed, a SMART Governance System should help:

- Promote **accountability** by providing a "system of record" for all portfolio-related work and decisions, and an enterprise-level tasking system;
- Improve **productivity** by streamlining the communication of progress, plans, and issues. Communications should be standardized to be **SMART** (**S**uccinct, **M**easurable, **A**ctionable, **R**elevant, and **T**ime-based), and prioritized by **Urgency** and **Importance** so that decision-makers can focus on the highest priorities first;
- Increase **transparency** by providing access to unfiltered communications and reports;

- Gain **insight** and **visibility** by providing an accurate and complete knowledge-base, with the ability to conduct high quality data searches and generate powerful information reports;
- Reduce **risk** by ensuring that key information and critical issues don't "fall in the cracks" or get lost; and
- Drive **performance** by providing e-mail alerts of assignments and actions coming due.

In summary, a SMART Governance System must be able to turn the "Accountability-to-Transparency-to-Visibility" double-play.

Oh, I forgot to tell you that the 1906 Chicago Cubs had a 116-36 Win-Loss record, which is to this day, the all-time best single-season record. They also went on to win the World Series in 1907 and 1908.

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### References

1. U.S. Congress. (2002, July 30). *Public Law 107-204: Sarbanes-Oxley Act of 2002*.