

Rethinking NIFO

“Noses in, fingers out” may be an indefensible standard for board behavior in the post-Enron era.

BY MARK W. SICKLES

PRE-ENRON, directors were respected for the job they were in. But post-Enron, directors are only being respected for the job they're doing. To earn this higher level of respect, many directors will have to go through transformational change.

When success in the new environment calls for transformational change, experience from the old environment becomes a liability: IBM mainframe experience in the micro-computer era; quality control experience in the quality assurance era; Theory X experience in the Theory Y era; and now, pre-Enron board experience in the post-Enron board era.

One of the traditional mantras of the board function has been “noses in, fingers out,” a clever way of making the valid point that “management does, the board assures.” In some companies, being on the board is like being the Maytag repairman, and in such cases, you can most likely get away with the NIFO approach.

But if the dam is about to break, as it has in too many companies, “noses in, fingers out” is not only unacceptable, it's indefensible. Remember why it was so easy for FedEx to establish the No. 1 position in overnight delivery? UPS's rigid culture as a “ground” transportation service gave the skies to FedEx. “Fingers out” for boards whose companies suffered from Enronitis is equal to “ground” for UPS: In both cases, these words ruled out actions needed to assure shareholder value.

Unlike “fingers out,” “the board as-

suress” is absolute and timeless. If board members must insert their fingers, bodies, minds, hearts, and souls to assure shareholder value, then that's what the shareholders are paying them to do at that point in time. UPS has gone on to demonstrate an unbending commitment to long-term success by pushing aside conventional wisdom and pushing through the complexity of transformational change to achieve extraordinary results — off the ground — on behalf of their employees, customers, and shareholders. Directors should do the same.



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Post-Enron, shareholders expect their directors to behave ethically, defined as managing the intersection of competence and integrity. This is a major departure from past practice. Did the boards of scandal-riddled firms like Enron and WorldCom assure their management teams had the competence needed to create organizational integrity? Did these boards even recognize that assuring management possessed this competence was one of their

most important responsibilities to the shareholders?

Fulfilling these responsibilities requires mastery of the “fundamental four” roles of post-Enron directors:

1. *Fiduciary:* Protecting the capital investments of shareholders/stakeholders.
2. *Adviser:* Formulating a strategy designed to develop strategic assets and then exploit those assets to create sustainable competitive advantages and long-term value: superior returns com-

pared to returns produced by alternative investments of comparable risk.

3. *Overseer:* Developing and utilizing a systematic capability to implement the strategy while adapting to external forces influencing the underlying elements of shareholder value: price, cost, and capital requirements.

4. *Advocate:* Marketing and selling the firm to current and prospective employees, customers, and shareholders as a great place to work, buy, and invest.

These four board roles are designed to complement and reinforce four fundamental management systems: Financial, Strategy, Organization, and Operations. To assure top management spends enough time working on these systems to enhance the performance of the people working in these systems, post-Enron directors must master the art of “leading with the question mark” rather than the exclamation mark. I have yet to meet a director who does not readily agree that boards create work in organizations when they ask questions. Ask when we tee off, and management will work to create a golf outing. So why not ask questions that reshape the work of management so it produces long-term shareholder value?

When boards play their four roles, boards and management begin to collaborate — seamlessly — on behalf of the shareholder. The “what” of their job is the same: long-term shareholder value. The difference is in the “how”: Management does, the board assures — fingers and all.

If long-term shareholder value is missing, neither the board nor management did its job. Former MCI CEO Mike Cappellas' closing comments from a 2006 speech at Drexel University captured the essence of this board-management interdependence: “Good governance equals great management, and great management equals good governance.” It's that simple! ■

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