Stewardship and the New Age of Excellence: What is the Value of Stewardship in Corporate America Today?

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A decade of mistrust—from financial institutional missteps to inflated CEO salaries and investment scams—has forced us to examine the concept of stewardship as it relates to some of our country's most admired institutions. Our national introspection resulted in the marked, unprecedented shift in our corporate focus—from a singular vision of profitability to the prioritization of stewardship in our corporate ideology. Through the course of these events, business leaders have realized (and some are still accepting) that proper stewardship begets profitability. Conversely, the lack of this most basic principle can have destructive effects on a corporation's functionality and reputation. This paper examines the shift in our national mindset towards stewardship that has changed how companies succeed in a new era—and the four main disciplines of stewardship that will guide fiduciaries on their journey to excellence.

THE RELEVANCE OF STEWARDSHIP

Any corporation that still views stewardship as an altruistic principle needs only to look to the example of the impact of stewardship negligence triggered by oil giant British Petroleum (BP). BP's board of directors would undoubtedly agree that proper stewardship—taking care of resources that have been entrusted to the company—would benefit all of its stakeholders. But the breakdown of stewardship—albeit, likely for a justifiable cause (e.g., money or time-saving measures)—results in catastrophic loss, both for the company and for those who trusted them in their stewardship duties. To presume BP or any corporation has a responsibility to anyone other than themselves, we need to examine the philosophy and origination of the term, "steward."

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"Stewardship" is originally a Phoenician term, and the root word for "trust." Stewards are entrusted with responsibility—to oversee, properly manage, and/or protect certain given objects, principles or people. "Trust" became the root word for "fiduciary," which is used today to represent something "held or founded in trust or confidence." The link between "stewardship," "trust," and "fiduciary" traces back to the origins of these concepts. Corporate boards are legal fiduciaries to a number of people—their employees and investors, to name a few. Stewardship and trustworthiness, then, emerge not just as theoretical guiding principles; but rather, they are embedded, essential ingredients to corporate responsibility.

The focus on stewardship today does not insinuate corporations' ignorance of stewardship until now. Leaders have always intended to perform well and create value for their companies and their stakeholders. They have been stewards all along, but the intentional focus on the practice of prudent stewardship—to retain stockholders, to avoid risk and penalty, and to grow as an organization—is largely a recent phenomenon. The integration of standards into global corporations is the line of demarcation between the "old era" and the "new era" of corporate excellence. In the new era, the promise of intentional stewardship is mandatory for a company's success. And with a new success metric comes a demand for systems that will drive and support this new standard.

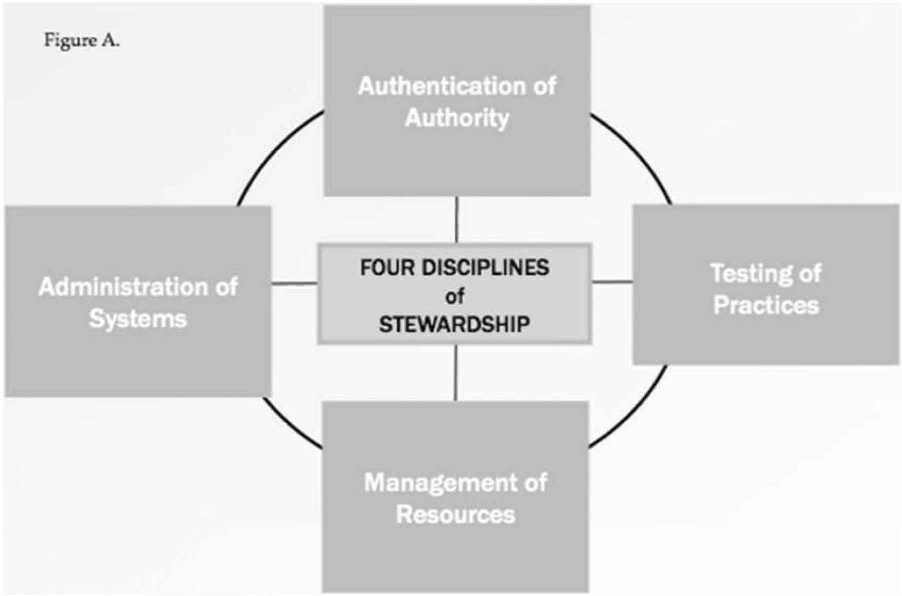
THE FOUR DISCIPLINES OF STEWARDSHIP

The pursuit of excellence is just that: a quest. If we believe that, in business, there are always areas to improve, change, and grow, than excellence is not achieving a certain objective, but rather perfecting the process used to achieve an objective. To pursue excellence, there must be a developmental—rather than a complacent or stagnant—mindset. With a commitment to developing people, systems, and best practices—and continuing to test those systems of performance—we work towards excellence with a stewardship mindset. The pursuit of stewardship, and excellence, is a constantly evolving journey.

In the old era, corporations aimed for performance goals—numbers of revenue, profitability, office expansions, and acquisitions—without necessary concern about how they would achieve those statistics or the residual impact of those decisions. This approach sets the stage for failure in people and processes, and potentially, ethical conduct. With a stewardship-guided process in mind, however, companies' performance can be the by-product of well-developed plans and responsible actions toward success.

The following four disciplines serve as a guide for corporations pursuing stewardship and excellence in the new era:

- Authentication of Authority
- Testing of Practices
- Management of Resources
- Administration of Systems



AUTHENTICATION OF AUTHORITY

The Authentication of Authority is the definition of a company's chain of command and its scope of responsibilities. The importance of authentication in stewardship is that it provides a structure for accountability. This discipline includes naming board and committee members, management teams and executives, and subsequently instituting bylaws and guiding rules for this executive class. It constitutes not only an understanding of how management will be organized and run, but also a cognizance of who is being selected for a leadership role, and why.

The old era disregarded conflicts of interest—there was no pressure for a board of directors or management committee necessarily to have objective subject matter expertise or a diversity of perspectives. Where the old era devalued these principles, the new era embraces them as an essential consideration to achieving excellence in corporate governance. This idea appears to be common sense, as a diverse group would have a more balanced, holistic perspective on issues—but it was not a common practice (and in some cases, still is not) in leading boardrooms across the U.S. until recently.

Many corporations are now committed to implementing systems that test the objectivity of their management practices and vendor relationships. An integral part of the authentication of authority is the validation of the authority's practices. Once a policy is put into place, it should be tested on a regular basis and revisited to ensure it is actively in practice. An internal or vendor policy that only exists as words on a page is as effective as no policy at all—both in minimizing risk and maximizing effective results.

Reward metrics change in this discipline, as well. In order to support the pursuit of excellence through stewardship, there is a shift in the reward system. Managers (and partners, executives, staff members, etc.) must be rewarded and incentivized for good stewardship, in addition to sheer performance. This is a severe shift from the traditional corporate reward system, but one that we have seen demonstrated in numerous scenarios.

Take the example of a major airline company that received a $26 million fine for negligence, as the maintenance department did not replace landing gear parts on the company's planes. One could argue that management would not even be aware of such a maintenance issue, and this is potentially true. But management is responsible for setting the standard by which all of their employees are governed. If there is not a priority placed on stewardship—taking care of what has been entrusted to the company and employees—which supersedes profitability, efficiency or inconvenience, then there is no assurance that processes and people will be consistent, ethical or profitable long-term.

Questions to Ask:

- ○ What individuals or committees manage us, and what are their specific roles and responsibilities?
- ○ How does our leadership intend to manage us? What are their guiding principles and policies?
- ○ What practices are in place to ensure the regular validation of our management policies?

TESTING OF PRACTICES

The Testing of Practices is the measurement of practices and progress against a standard of stewardship. A critical factor in properly testing the way things are done is to eradicate relativism. An organization that comes to decisions on a relative basis is exposed to inconsistencies at best, and outright breaches in conduct at worst. Creating standards or policies in non-relative terms results in producing more predictable, measurable outcomes. The Testing of Practices combines measuring not only *what* is done (performance) but *how* it is accomplished (stewardship).

In order to properly test practices, a standard must first be set against which practices will be measured. In the old era, corporations may have relied on past experiences, "the way things have always been done," or collective consensus to dictate a standard. Due to an increasing amount of outsourcing practices in the last decade, many times, even third party providers were able to define standards—which often resulted on a focus on performance. As stated previously, the challenge with measuring success based on performance is that there is no guarantee that the level of performance will continue. Only measurement of the practices that caused the performance can ensure that the infrastructure, talent and spirit exist for continued success.

Standards established should be based on stewardship, which will drive performance. This is easier said than done. There are significant and real pressures in the market that work against the implementation of good stewardship. In the public trading environment, the attention on quarterly earnings can generate stress when trying to manage a company under the principles of stewardship. In the short-term, setting performance standards may look more attractive—even easier—than implementing and managing a standard for stewardship. However, as is often the case, the shortest route is not always the best route in the long run—and sacrificing ethics or sound practices for short-term results can often play against a company in the end.

Questions To Ask:

- ○ What are our standards for success?
- ○ How do our policies align with our stewardship principles?
- ○ Do the vendors that serve our employee benefit plans have conflicts of interest that may negatively impact our corporation or employees?
- ○ How do we measure our performance as a fiduciary committee and how do we measure that of our vendors?

MANAGEMENT OF RESOURCES

Management of Resources includes the execution of established performance standards and the implementation of consequences if performance falls below those standards. This discipline requires defining the deployment of resources and establishing metrics to determine optimal resource use. The management of resources also includes a responsibility to effectively manage the company's money—determining not only how much the company will spend, but choosing smart avenues for investing the company's money that maximize returns and minimize politically-driven or uninformed investment decisions.

Acting prudently, an often-used fiduciary term, reminds us that resources belong to someone else—and we must act on the belief that our money, our performance, and all that emanates from a company belongs to and affects another group. Financial prudence, at its core, is acting in trust of someone else's resources—whether it is an employee's career, corporate earnings, or environmental responsibility. Financial prudence also suggests that there should be skill pursued and developed that is relevant to the protection of those interests.

Enron's investment committee exists as a vivid real-world example of failure in resource management. When evidence of the company's weaknesses surfaced at the fiduciary committee table, the committee ignored warning signals. While those committee members were placed in a position of accountability to others, they ignored their duty in place of corporate self-preservation—to advance and ultimately protect their own interests. When implementing effective resource management, a corporation must be prepared to answer the dreaded question: How will we respond when we realize that something—a process, financial report, or person—has failed to perform to standard?

Questions to Ask:

- ○ How are we managing and measuring our investments?
- ○ Are we delivering what we promised to our stakeholders? Our employees?
- ○ How can we prove that we have adhered to the standards we have set for our management and the company?

ADMINISTRATION OF SYSTEMS

Administration of Systems includes the tools and mechanisms used to carry out responsibilities prudently. The major difference in this discipline now is that there is greater accountability and thus more attention focused on how responsibilities are being fulfilled. In the old era, many corporations could simply assume responsibilities were being upheld—either by in-house staff or a third party vendor—without as much duress regarding potential liabilities and risk.

In the old era, abdication was epidemic. In the fiduciary environment, providers were hired regularly and given full corporate stewardship responsibilities without a way to measure whether these duties were being handled well. In many other environments, outsourcing increased in popularity, creating the need for new metrics by which outside performance could be evaluated.

In the new era, laws, regulations, and court decisions require executives to take more responsibility in the evaluation and monitoring of their policies and vendor relationships. For example, in the retirement plan community, the U.S. Department of Labor's 408(b)(2) regulation requires executives to ensure their providers not only have disclosed their fees, but that those fees are "reasonable," based upon a certain set of standards. This is an example of how accountability has been taken one step further—management not only must validate fee disclosures, but actually take the time to evaluate the reasonableness of those fees. From these new standards emanates tools that help corporations and leaders meet these expectations.

Similarly, for charitable foundations, the new era has determined new standards for administering resources. The 2009 Bernard Madoff scandal exemplifies why and how new standards have emerged. Bernard Madoff set up an administration system that he completely controlled, from booking his own trading transactions, to creating reports to investors and reaching out to independent "auditors" who would supposedly test his system. The administration was managed by the perpetrator of the fraud, and unknowingly outsourced to him by investors who entrusted their investments to his care.

This was a case of excessive abdication: investors assumed proper diligence was being undertaken on their behalf, but their investment advisors had abdicated that responsibility to a Madoff sales person, who, in turn, had abdicated ultimate responsibility to Madoff himself. The result was over $50 billion in devastating investment losses for a variety of individuals and institutions. The new era mandates stringent systems to ensure there is less abdication of responsibility across multiple levels of the executive chain, and that management processes are regularly monitored and evaluated.

Questions to Ask:

- ○ How do we carry out our responsibilities?
- ○ Are our processes and practices insured?
- ○ Are our vendors' processes and practices certified?
- ○ Do we have certification for our board/executives?

The four disciplines of stewardship entail more responsibility for the executive class, but also result in immeasurable internal and external rewards. Internally, the four disciplines ensure higher accountability and reliability across management levels, predictability in employee behaviors and performance, and peace of mind gained through monitored systems and results. Externally, the four disciplines reward corporations with less risk of legal or other sanctions against faulty (or unchecked) practices, and stronger, more dependable vendor relationships—in addition to gained trust with stakeholders and investors. Being mindful of the four stewardship disciplines elevates a corporation's awareness from a singular profit perspective to a holistic, process-centric vision, which, over time, produces the most rewarding results—through ethical, responsible and intentional practices.