

# What Your CEO Wants

By Jackie Bassett

More than 1,500 CEOs worldwide interviewed for IBM Corp.'s biannual study<sup>1</sup> said that the ability to deal with complexity — environments of emerging technologies, massively interconnected systems, and innovative business models — was the biggest challenge they faced. The study, which captured information from face-to-face interviews with CEOs from 60 countries and 33 industries, highlights the attributes of top-performing organizations based on revenue and profit growth during the past five years. According to the study, eight in 10 CEOs expect their environment to grow significantly more complex, and fewer than half believe they know how to deal with it successfully.

The survey paints a clear picture of what many CEOs all around the world want:

**Operating dexterity.** CEOs are revamping their operations to be ready to act when opportunities or challenges arise. They are implementing flexible cost structures and partnering capabilities that will allow them to rapidly scale up or down and are looking to drop outdated approaches, taking more balanced risks.

**Use complexity to their advantage.** CEOs shared that incremental changes are not enough in a world that is operating in fundamentally different ways and are redesigning their strategies for ultimate speed and agility.

**Actionable information.** CEOs see new sources of information as their greatest opportunity in developing deeper customer insights. They are looking for innovations that will drastically change how they engage with customers, partners, and employees. Yet, they want information to be actionable and give them greater confidence in the accuracy of their strategic decisions.

**Immediacy.** It is no longer sufficient to think, manage, or delegate tasks based on traditional time horizons or planning cycles. CEOs understand that new threats and emerging

opportunities require them to predict outcomes where possible and act despite uncertainty.

**A new mindset for questioning.** CEOs want employees at all levels to challenge assumptions based on past experiences, scrutinize “the way we’ve always done things,” and adopt a mindset of continuous change.

As is evident from the survey results, many CEOs and boards of directors are looking for answers and are relying on their senior executives more and more for support. Because of their role as trusted advisors, chief audit executives (CAEs) are in the perfect position to take on the “CEO challenge” and help the organization achieve change. But to help bring measurable success and add value to the organization, CAEs need to understand what their stakeholders want, collaborate with senior management and the board, provide assurance in the decision-making process, and help to optimize shareholder value.

## Understanding Stakeholder Needs

Before CAEs can add value to the organization, they must understand what the CEO, board, and senior management team need to make valuable business decisions. Otherwise, internal audit efforts will fail to deliver the right information and uncover opportunities for change.

The best way to know the business is through communication. In many cases, a face-to-face conversation, whether formal or informal, will enable CAEs to uncover a wealth of information and truly capture what the organization needs and the drivers behind change. Face-to-face meetings also serve another purpose — they help stakeholders clarify the reasons for wanting change and discover unforeseen risks and opportunities.

When CAEs align internal audit activities to provide the assurance and consulting services stakeholders need, they

<sup>1</sup> A copy of the study can be downloaded from IBM’s website, [www-935.ibm.com/services/us/ceo/ceostudy2010/](http://www-935.ibm.com/services/us/ceo/ceostudy2010/).

get actionable information on ways to help the organization improve operating dexterity and continuously respond to change. In addition, CAEs are able to use complexity as a competitive advantage and deliver this advantage to their stakeholders.

## Actionable Audit Reports

As the IBM study states, CEOs need actionable information to make sound business decisions and ensure organization efforts and resources are aligned to meet strategic goals and objectives. Internal audit activities collect a wealth of information that, if presented properly in the audit report, can provide CEOs and senior management with the information they are looking for to make timely and accurate business decisions.

“If internal auditors are going to be effective at creating change, they have to speak the language of the organization,” says Larry Harrington, CIA, vice president of internal auditing for aerospace and defense company Raytheon Co. “If internal auditors perform the right audits, but then write the report in such a way that management doesn’t pay attention to it, it’s the same as the analogy of the tree falling in a forest with no one around — did the tree make a noise? If nobody reads the audit report and change does not happen, then how good was the audit?”

Consequently, it is important for audit reports to be written in a language that the CEO, board, and senior management understand and recognize. For instance, if the goal of a particular business unit is to grow by 25 percent each year, the audit report could specify whether the existing systems, infrastructure, and even management setup are able to support this goal.

In addition to writing audit reports in a language that management understands and aligns recommendations with business goals, CAEs need to ensure actionable information is not buried in the report. Capturing the intended audience’s attention early in the process is just as important as speaking management’s language — both are vital components in positioning the internal audit activity as an agent of change that adds value to the organization. Therefore, key audit findings and recommendations providing actionable steps need to be stated up front in the executive summary.

As Harrington explains, “If you only have three minutes to talk to your CEO in the elevator, are you going to get right to the point or waste this valuable time? The audit report is no different. Audit reports need to capture the CEO’s attention as early as possible to ensure key information is read as quickly as possible.”

CEOs and boards have the difficult task of running the organization and achieving or enhancing business value during this period of financial turbulence, increasing change velocity, and overall uncertainty. They need relevant information on the quality of their systems and processes so they can run the organization or provide oversight with the right business intelligence. Consequently, CAEs can help CEOs and boards assess risks pertaining to the strategies and objectives of the organization.

“Assessing risk management processes enables internal auditors to provide assurance on whether management’s processes are identifying risks and opportunities on a timely basis,” says Norman Marks, vice president of governance, risk, and compliance for SAP BusinessObjects.

“Management will then be able to respond appropriately to contain risks and take advantage of existing business opportunities. Internal auditing also can audit the timeliness and integrity of the information management uses to run the business and the board uses for oversight. By auditing and providing information on individual business risks of significance, internal auditors can alert management of potential issues before they become obstacles to achieving corporate strategies and goals.”

Providing this level of assurance requires effective communication — speaking on the right subject in the language of the business — as well as having an innate understanding of the information that CEOs, boards, and senior managers need.

## Collaboration to Bring Success

Being actively engaged with business executives throughout the risk management process is the most common success factor in every risk management program at every maturity level, not how well CAEs collaborate with the legal department or external auditors. Executives own risk, and it is their engagement that will ensure risk management is successful. CAEs, as business leaders, can help drive the adoption of an effective risk management process, where needed.

To measure the success of a risk management program or process in achieving its objectives, and to be able to effectively convey this information to stakeholders, CAEs need to speak management’s language. In other words, CAEs need to use terms and metrics already in place to

measure the effectiveness of risk management efforts. CAEs also need to have an internal audit program that is designed to provide assurance on risk. For instance:

- Meeting with business owners to identify their metrics for risk management effectiveness.
- Incorporating these business metrics into audits and internal audit reports.
- Performing a customer satisfaction survey at the conclusion of every audit.

When CAEs actively engage senior executives, they align audit engagements with business strategies and risks, thus positioning the internal audit activity as a vital component of the business strategy planning and execution process.

If that hasn't happened in your organization, Denny Beran, CIA, CCSA, senior vice president of internal auditing for retailer JCPenney Co., suggests getting started by having a robust, face-to-face dialogue with the audit committee and senior management team. During this dialogue session, the CAE, audit committee, and senior management team can discuss different risk scenarios to identify challenges in accomplishing a particular business strategy and unforeseen opportunities for success.

CAEs working in organizations with more mature risk management programs report that as senior management becomes more actively engaged in the process, they obtain a better understanding of where the risks are within their units or functions. Furthermore, collaborating at this level gives managers a greater appreciation of how risk management adds value to their unit and role in owning the risk management process.

Once executives see what internal auditing can do for them, they begin asking CAEs to come in for a deeper dive into the specific areas that matter most to them. Collaboration also serves to help internal auditors understand each business process at a deeper level than they ever could have before.

“Business owners are in the heat of competitive battle. Internal auditors need to innovate, collaborate, continuously monitor risk, and show the measurable value we add to the organization.” Denny Beran, CIA, CCSA, senior vice president of internal auditing, JCPenney Co.

## Greater Confidence in Decisions

Now that many financial analysts predict that the worst part of the economic recession is behind us, many CEOs have started to shift their strategy back to growth mode and are ready to take on more risk. These CEOs understand that rewards guarantee an increased level of risk and that rewards cannot exist without risk.

Because many CAEs are not present when business strategy is discussed and set, they may focus on the risk side of the risk-reward ratio rather than the opportunity that the strategy was designed to capture. Yet, strategic risk is a competitive advantage. CAEs need to focus more on how to help executive management take advantage of the level of strategic risk they have deemed acceptable for the organization. Paul Sobel, vice president of internal auditing for independent power company Mirant Corp., shares what CAEs can do to help executive management take advantage of strategic risk.

According to Sobel, CAEs need to understand and assess the risks created by changes in business strategy by examining the facts and other intelligence on which a strategic decision is based. CAEs should never “jump to the end and just see the risk.” In many cases, Sobel continues, CAEs need to understand other business considerations.

For instance, it may be that executive management has considered each risk scenario but has not fully documented an effective risk management strategy. Or, if strategic decisions were made based on information the CAE does not have access to, then the CAE needs to gain access to that information. To this end, the CAE can:

- Meet with executives to discuss strategic risks and determine whether they have been considered.
- If the risk is external (e.g., an earthquake or hurricane) with limited options for assurance, discuss how management should respond to each risk scenario and evaluate the response process.
- Assess the information used to make strategic decisions to determine its level of integrity and to help increase senior management's confidence level in the business decision.
- If the risk stems from a business initiative or process, such as a merger or acquisition, the internal audit activity can assess the process

before, during, and after the event and include recommendations that can help senior management increase shareholder value based on the lessons learned.

- The internal audit activity can perform an audit to assess the effectiveness of benchmarking metrics and provide recommendations on the various paths management could be considering.

“Playing an advisory role to management does not impair objectivity,” says Sobel. “Although you may not be able to audit all strategic risks, you can still add value by providing advice and assurance on the key inputs that went into the decision-making process.”

“A seat at the table for CAEs is essential for awareness of business strategy. CAEs need to audit the data that goes into the strategy’s decision-making process and support the audit committee to ensure a robust set of scenario discussions occurs at the board level.”  
James Rose, chief audit executive for health-care provider Humana

## Optimizing Shareholder Value

The achievement of strategic goals and objectives helps CEOs optimize shareholder value. A risk assessment can help senior management achieve their goals by identifying areas for plan execution improvement and the different opportunities that risk presents.

Therefore, if risk assessment results show a deficiency, report recommendations must be written to drive a change in behavior. As part of their work, CAEs and internal auditors examine the business processes that drive the delivery of strategic objectives and look for improvement areas. As many CAEs know, the business owners responsible for overseeing these processes simply don’t have the objectivity or the time to see where processes can be improved.

Another challenge is that of the “elephant in the room” — what if one of the business owners has concerns over a particular plan element but, fearing he could be considered a nonteam player, doesn’t bring it up at the strategy meeting? To ensure business owners have an opportunity to share their perspectives on a specific area, Ted LaSalvia, vice president of internal auditing for orthopedic device provider DJO Incorporated, uses a risk assessment methodology

designed on a management survey and interview process that he implemented. The survey is part of his risk management toolkit and is distributed to participants so they can rank critical business process risks and respond anonymously with specific comments.

The toolkit includes “thought starters” or questions that solicit specific feedback by drilling down into each of the critical business processes. This type of toolkit can be easily adapted and used by companies in other industry sectors as it covers all critical business areas and processes, thus allowing for cross-functional risk identification and prioritization. For example, a company’s sales and marketing division can openly share their views, comments, and concerns on a new enterprise resource planning system the supply chain division is excited about via the survey.

“Internal auditing should look at the company’s strategic objectives and rather than ask, ‘How is this objective going to be achieved?’ we should ask, ‘What might stop us from achieving this objective?’ This enables us to become a voice for potential risk identification,” says LaSalvia.

## Control Self-assessment (CSA) Workshops for Risk Management

According to Nancy Haig, vice president of internal auditing for Eisai Inc., CSA sessions can assist business leaders in understanding the concepts of risk and control and their potential impact on the organization. Although internal auditing should not own risk management, auditors can be good facilitators due to their familiarity with key risk and control concepts and business processes.

Heat maps depicting perceived risk and control levels may be developed during the CSA workshop, and recommendations for mitigation strategies can be proposed. In addition, management action plans can be solidified, although this last step may take place with the individuals that have the authority for decision-making only.

**Jackie Bassett** is founder and CEO of BT Industrials Inc., a strategic management and technology consultancy that helps CEOs of global 500 companies close the business-to-technology strategy gap. To contact Bassett, e-mail her at [jackieb@btind.com](mailto:jackieb@btind.com).