

CONCEPTUAL FRAMEWORK FOR SECURICARE AND SECURICARE RATINGS

Julianna Adams O'Bryan and David White had separately listed submissions to the Senate Inquiry. Disappointment was expressed that neither gave a workable insight into the conceptual framework for Securicare and Securicare ratings. This additional information we hope at least in part remedy that situation

CONCEPTUAL FRAMEWORK FOR SECURICARE

The development of Securicare was a personalized answer to the questions Julianna Adams O'Bryan had asked of herself and others.

Julianna grew up in a family understanding markets and share prices, factories and workers, processes (standard costing) shareholders meetings and auditors reports. She trained as an accountant and auditor to understand better the world of business. She married and as a volunteer trained for five years as a family therapist with the Victorian Marriage Guidance (later Relationships Australia) it was the early days of transactional analysis and the understanding of counseling to educate and modify human behavior.

Her two strains of interest (accounting /business and human behavior) were to overlap in her management based accounting practice. Working from her own experience she developed a model for business planning. In the early 1980's she was asked to sell her accounting practice and to go to the Small Business Development Corporation (SBDC) to organize the first of the government subsidized business planning scheme's which was based on her own work. As part of her work at the SBDC she was accessed to the new writing on management theory, Peter Drucker and Harvard Business Review articles etc. She was in government for ten months then returned to the private sector. Human behavior was becoming part of management

She spent the next ten years as a creative strategist developing the frameworks for new Australian industries

In 1994 Julianna published a small booklet which detailed the internal and external factors inhibiting the optimum functioning of SME's. Included as internal factors were

- Managerial failure to adopt sound business practices (to day it would be integrated control systems)

- Managerial failure to share decision making and work co-operatively with others

- Managerial inability to acknowledge and to respond to the decline and failure of their businesses.

- Lack of adequate records to confirm their business dealings.

Included in the external factors were

- A legal system inadequate to the demands of arbitrating and solving commercial disputes.

Inadequacy of accountants and other consultants to recognize and deal effectively with business management or investor needs.

Failure of the education system to promote adequate standards of ethical business behavior

Legal firms providing clients with unnecessary complicated and costly legal documents.

Julianna was starting to move away from the capitalist corporate model. In her post capitalist business model the superannuation monies were the funding medium for business. She was looking at change and was open as to what that change might be. She started to see the family business model of the Chinese and Jewish cultures as having more to offer. There was an underlying partnership in these cultural models with an expectation of fair play and dependability. Julianna wanted to show the interrelatedness of all parties to the organisational equation and to simplify the documentation between parties and to ensure “ the spirit of what is intended ”

The Securicare Charter of Responsibilities

The Securicare Charter of Responsibilities (SCR) came as a possible answer to problems Julianna had identified in the marketplace.. Could we state our reliance on truth, trust and transparency as a starting point for human motivation and improvement of organisation competency and maturity.

Securicare Charters of Responsibilities are to be used between

1. Securicare and their own client businesses
2. Securicare and the internal organisational structure of a client business
3. Securicare and auditors and consultants

If using the SCR a register needs to be maintained. It will be ideal if the SCR register is maintained with an existing government statutory body or the ASX.

Special attention is paid to the style of the SCR to ensure such documents are enforceable

The first prototype of a SCR appeared in the mid 1990's. A modern version is attached. *



Securicare Charter of Responsibilities

The directors and staff of Securicare Ratings and

The Bloggs Group

are working to enhance and strengthen a corporate environment of

Truth

Trust and

Transparency

To achieve this directors and staff must internally and externally work co-operatively 'in the spirit of what is intended' to develop sustainable units of business performance and management information flow.

In the external compilation of these units of information we include banks, lawyers, accountants, research institutes and consultants.

These units of business performance and management information flow are each interdependent on each other unit of management information within the business.

This information is fundamental to the dependability of the Securicare ratings.

Each unit of business performance and management information flow has a control point. At each control point the person responsible for the information checks the information against the agreed standard of truth, trust and transparency. Each of these control points are part of the whole and collectively provide the information needed to report to all stakeholders on the business, its reputation risk management control and business sustainability.

Copyright Julianna Adams O'Bryan, August 2004 Ripponlea, Vic, Australia

In the mid 1990's alongside of the development of the SCR Julianna was seeing the emergence of consultancies aligning personal values with corporate values to motivate and develop staff. Also emerging from the early 1980's was a quality culture... Joe Batten in his book 'Building a Total Quality Culture' (1992 Crisp Publications Inc. California) describes Total Quality Culture as the

' missing link '. Batten talks of the necessity of promoting ' vision, values, innovation, renewal , quality, commitment, energy, discipline and personal leadership' which was incorporating what the values movement was saying.

At the same time --- late 1990's David White an internal auditor working within a framework of organisational governance wrote to Julianna

“ my work is related to how you develop the values or even more broadly intangible success factors including things like trust, commitment and competitive advantage. I have come to the conclusion that these success factors are not created by one process, task , activity or directive. E.g. three weeks from now we will all trust each other. They are the outcome of a governance system that integrates and aligns directing, managing and operating activities, culture (attitudes) competencies and processes (system synergy). I have labeled this organisational governance as distinct from corporate governance that is typically only related to processes for directing boards.

My view is that most of the current directions in governance impose more processes for scrutiny. More plans, procedures and traditional auditing does not mean more control as they do not create trust- if in fact governance processes and disclosure requirements are typically imposed due to a lack of trust.

(As supplied by David White, Australian Centre for Organisational Governance South Australia and included in Julianna's CLERP 9 submission)

David White continued to develop. His twenty years of research in competencies and organisational maturity combines the SCR and advice from an existing rating industry.

Securicare's roots go back to the early 1990's. Using the same management trends we can trace the ethical investment, triple bottom line and CSR (Corporate Social Responsibility). Securicare is mindful of these considerations and has proposed a measurement as the best way of providing an operational environment. -----Securicare Ratings * *

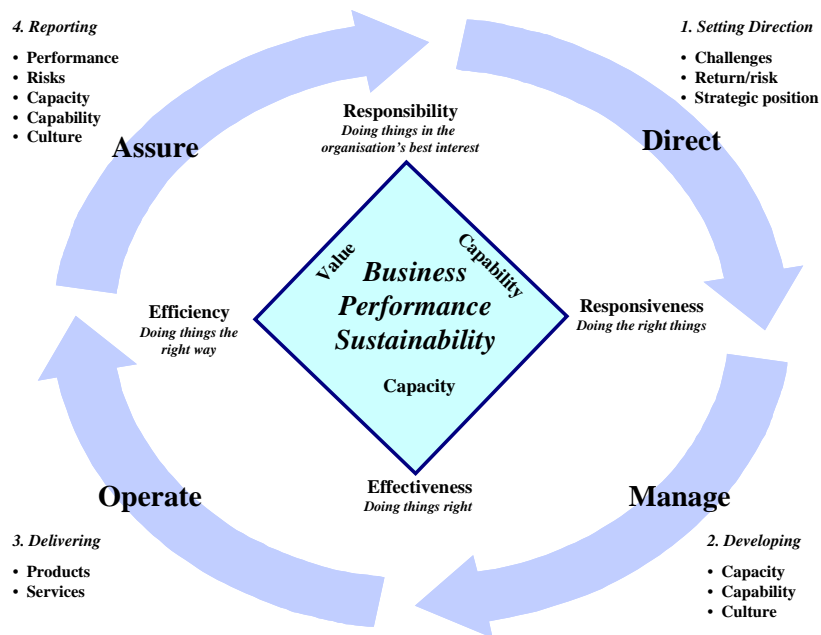
Securicare Ratings seeks to

1. To deliver the service will require a robust conceptual framework on how organisations function in an environment of risk and uncertainty.
2. Under the framework organisations may face two strategic market risks:
 - conformance risks associated with delivering products and services efficiently and effectively to the market place to conform with current customer needs and expectations and achieve a desired return; and
 - Performance risks addressing future customer's needs and expectations and achieving future growth and viability.
3. There may be a dynamic relationship between the risks. For example if highly profitable products and services are delivered there is an increased likelihood of attracting actual or potential competitors which in turn may force the organisation to address responsiveness and resilience to maintain market leadership/competitive advantage.
4. For efficiency and effectiveness traditional management “hard” controls such as plans, policies, procedures and information systems are required. In the knowledge era, a greater focus on culture and competencies (“soft controls”) is primarily needed to achieve responsiveness and resilience for performance improvement and long term viability.
5. An effective control system comprises two elements:
 - operating systems to manage service delivery efficiency and effectiveness; and
 - Corporate control systems to ensure strategic control over operations and focus on future performance and viability.
6. The diversity of team competencies needed to maintain control systems at a corporate and operating level is also influenced by conformance and performance risks. The team competencies to manage conformance risks include organising, scheduling, production, service delivery, enforcing/compliance with agreed plans, policies and procedures. The team competencies to manage performance risks include creativity, innovation, networking, change agent, coach and mentor.

ORGANISATIONAL PERSPECTIVE.

7. A reliable rating on business performance sustainability must be underpinned by a strong conceptual foundation of how successful organisations must operate for long term viability. **Figure 1** overviews sustainability from an organisational perspective
8. Organisations must be:
 - Responsible – all those that direct, manage operate and assure must act diligently in the organization’s best interest at all times;
 - Responsive – the organisation must continually adapt to its environment and changing demands and expectations of shareholders (if private sector) public interest (if public sector), customers, employees, regulators and others which may influence the organization’s future; and
 - Effective and efficient – the right products and services must be delivered the right way at the agreed quantity, quality, time, cost, location and image.

FIGURE 1: BUSINESS PERFORMANCE SUSTAINABILITY

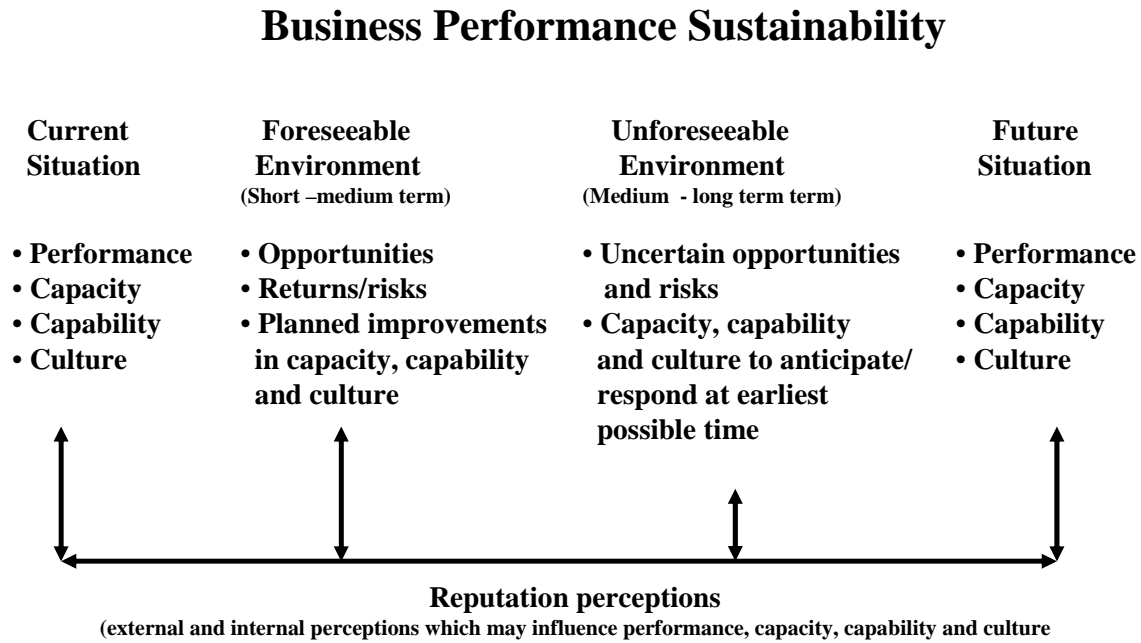


9. Responsibility, responsiveness, effectiveness and efficiency create an outcome whereby an organizations value is greater than simply the sum of the parts of an organisation. The value of an organisation includes:
- Corporate memory – experiences and lessons learned from the successes and failures of the past which assist in sustaining the future;
 - Creativity / innovation – the ability to develop new products, services, relationships, processes and values;
 - Risk alertness – the ability to perceive potential threats and events at the earliest possible time and respond appropriately;
 - Human spirit – the commitment to achieve goals, work collaborately and possess shared values and behaviours including being within a framework of truth, trust and transparency and the ‘spirit of what is intended’;
 - Corporate reputation and brand image which represents the perceived trustworthiness of the organisation;
 - Market value including the quality of products and services, perceptions of value for money, market dominance, customer loyalty and trust; and
 - Financial value in terms of financial position, current and future earnings adjusted for risk.
10. The value of an organization must be protected and enhanced if performance is to be sustained and improved. An enterprise wide governance approach is needed to protect and enhance value because:
- All elements including directing, managing, operating and assuring need to be integrated and aligned to create organisational value;
 - The protection of value within an organisation is only as strong as the weakest element.
11. An enterprise wide organisational governance system is more comprehensive and effective in protecting value than a corporate governance system which primarily focuses on directing / managing.
12. There is no such thing as a ‘one size fits all’ governance system regardless of organizational size and situation. For example small start up organizations, a governance system may initially focus on relationships and products/service design and delivery. For higher risk environments the system must be more effective and/or responsive in terms of addressing challenges and aligning capacity, capability and culture.

OPERATING ENVIRONMENT PERSPECTIVE

- 13. A conceptual framework from an operating environment perspective is overviewed in **Figure 2**
- 14. Organisations typically face an environment of known opportunities and risks where both likelihood of occurrence and impact (both positive and negative) can be profiled and strategies, capabilities etc developed.
- 15. There are also typically uncertainties which may be trends, influences, potential technology and other breakthroughs which the organisation must scenario / contingency plan and/or respond to at the earliest possible time.

FIGURE 2: BUSINESS PERFORMANCE SUSTAINABILITY

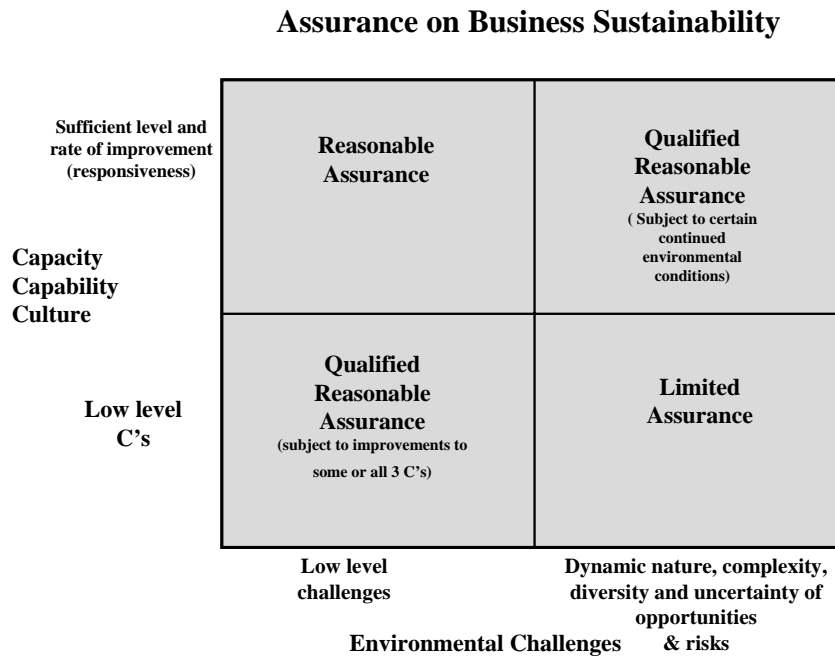


- 16. Reputation perceptions by shareholders, potential investors/financers, customers, directors, managers, employees and others about the current and future situation and the environment faced can in turn influence performance, capacity, capability and culture.
- 17. If perceptions about the organization’s situation are fundamentally different from reality for key relationships due to a breakdown in truth, trust and transparency, then the performance sustainability of the organisation may be affected both positively and negatively in the short and long term.
- 18. The level of assurance provided in a business sustainability rating may assist in ensuring perceptions about the organization’s situation are not fundamentally different from reality for key relationships both externally and internally.

ASSURANCE ON BUSINESS SUSTAINABILITY

19. A rating on performance sustainability links assurance with the above conceptual frameworks as overviewed in **Figure 3**
20. At best a rating can only provide reasonable assurance on performance sustainability. The highest level of sustainability assurance is provided when there is more than sufficient capacity, capability and culture to address relatively low level challenges.

FIGURE 3: ASSURANCE OF BUSINESS SUSTAINABILITY



21. Only limited assurance on sustainability can be provided when there are dynamic, complex and/or uncertain opportunities and risks with low capacity, capability and culture. This opinion is further limited if the perceptions about the organization's key relationships are fundamentally different from reality due to a breakdown in truth, trust and transparency.
22. Qualified opinions can be provided where assurance is given subject to improvements in capability, capacity and or culture or that potential exists for sudden changes in the environment (which may cause a review of the rating).
23. Of course a qualified opinion will not be issued unless perceptions about the organization's situation are fundamentally the same as reality for key relationships i.e. an effective framework of truth, trust and transparency.
24. It is the lack of transparency in the life cycle phases of specification, projects, operation, maintenance, and dismantling that allows the uncertainties of the future remain hidden and elusive. It is then too late for the operational people (Operators,

Maintenance, and Contractors) to forestall the law of unintended consequences. The Board, Executive ultimately has to provide answers and pay for the consequences.

25. Transparency also affects the behavior of people in managing their allocated level of risk throughout the organisation, which consequently affects the bottom line performance and Shareholder's value.
26. Transparency is essential in establishing risk performance needs, levels, targets and building new knowledge in mitigating risks, thus achieving informed decision-making and higher levels of competence in managing risks.

Establishment of a standards committee

It is proposed to set up an independent standards committee. It will be most appropriate if the standards committee represented the interests of the government and private sectors.

Securicare ratings will be subject to audit supervision and those relying on Securicare Charters of Responsibilities will be subject to random audit to ensure the dependability of the information on which Securicare relies.

* We have defined the following

- **Truth** - aligning perceptions with reality, disclosure of risks and disclosure of mistakes as a basis for learning and the development of wisdom.
- **Trust** within a legal environment of confidentiality, privacy, commercial confidence, without adversely affecting commercial advantage and
- **Transparency** is the process of establishing the relationships of risks within "systems" making visible how all components work together for the life cycle and facilitates the standardization of processes in managing overall risk. To achieve transparency requires the development of specific approaches which suit your particular business.

** A creative or conceptual strategist can pull together otherwise unconnected ideas to solve the problems which are perceived in business. From the early 1990's Julianna has been able to work with people who had more recognized qualifications than herself. This has ensured she has been open to scrutiny, carefully monitored by those around her, that she has been able to develop their trust and that Securicare Ratings are a reflection of their work and expertise.

