

Governing Energy

Trust but Verify

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President Ronald Reagan is noted for his speech where he expressed a new model when dealing with the former Soviet Union quoting an old Russian proverb, "doveryai, no proveryai."ⁱ Coinciding with Perestroikaⁱⁱ this new relationship between the United States and the Soviet Union led to a dramatic change in the post World War II status quo; yielding to the Realpolitikⁱⁱⁱ of the 21st century.

In many ways corporations, regardless of industry sector they serve or country of origin find themselves in a similar situation. Contemporary organizations are multi-dimensional with numerous business units. Their supply chains are large and often convoluted supply chains with constituents that include not only shareholders, government regulatory agencies, but a host of local, national and international groups concerned with the firm's activities and its corporate citizenship behaviors.

Much has been written, including in this dialogue, about the need for standard operating procedures, reporting and oversight as well as good governance models extending beyond the traditional approach. All of this may not enough in our 24/7 century.

As of the writing JP Morgan Chase has announced and is in the process of explaining a 2% negative impact^{iv} on one of its investments—a loss of \$ 2 billion and possibly more.^v Given that the international stock markets can move two or more percent in one day, is this a *material* event? However, given today's environment, it appears this disclosure may take on a life of its own.

Trust but verify. Management must put its trust in those key individuals it has tasked with the creation and delivery of value. Micromanagement of a major global firm has been repeatedly shown not to produce the best shareholder value. However, governance models must heed the advice of President Reagan.

Individuals, business units and partners must be trusted to deliver value that has been contractually agreed upon. However, governance oversight must extend to an new auditing process. Going forward, auditing as it is typically defined as a quarterly reporting event will most likely become one along the lines of continuous improvement.

Edwards Deming et al. developed management models for the manufacturing era that extolled the virtues of independent behavior in the framework of Total Quality Management (TQM) and continuous improvement.^{vi} It is time to extend this model to include ongoing governance.

In 2009, this author put forward a model for managing industrial enterprises in ever increasing volatile environments.^{vii} Subsequent events suggest this model be extended to include real time governance. The forthcoming monograph does just that—AEIG.^{viii}

Doveryai, no proveryai—common sense then, good governance now.

How does your firm govern the details in a world where a 2% negative impact becomes an international political football?

About the Author

Dr. [Scott M. Shemwell](#) has over 30 years technical and executive management experience primarily in the energy sector. He is the author of two books and has written extensively about the field of operations management. Shemwell is also the CEO of Knowledge Ops, Inc.; a firm that focuses on providing its customers with solutions enabling operations excellence and regulatory compliance management.

End Notes

ⁱ http://en.wikipedia.org/wiki/Doveryai,_no_proveryai

ⁱⁱ <http://en.wikipedia.org/wiki/Perestroika>

ⁱⁱⁱ <http://www.merriam-webster.com/dictionary/realpolitik>

^{iv} Interview with JP Morgan Chase CEO. NBC Meet the Press. May 13, 2012

^v <http://www.brookings.edu/research/opinions/2012/05/11-jpm-elliott>

^{vi} <http://deming.org/index.cfm?content=66>

^{vii} <http://www.scribd.com/doc/11792098/4/>

^{viii} Shemwell, Scott M. (2011, October). Asset/Equipment Integrity Governance: Operations–Enterprise Alignment. Author.