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A company’s survival (and success) depends to a great degree on the effectiveness of its board’s decision-making. Directors need information in order to properly evaluate risks, opportunities and challenges and to determine strategic planning. Therefore, it is essential that debate and decisions at board level are based on high quality, timely information. However, many organisations both large and small struggle to get this right.

This ‘information challenge’ in the boardroom was highlighted in “Challenges to Effective Board Reporting” which summarises the research findings of a 2017 survey of governance professionals carried out by ICSA: The Governance Institute and Board Intelligence which clearly revealed that board packs are over long, lack strategic focus, and are too inward and backward looking.

**Quality, not quantity**

The sheer volume of information, often hundreds of pages, collated and prepared into board packs, creates a significant challenge for both directors in finding the time to read, understand and digest it, and for management which has the regular, time-consuming task of preparing it. The problem is compounded if the information is inadequate and unfocused.

Claire Alves FCIS
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The biggest mistakes made by management pertain to providing too much data and not enough analysis, making it difficult for the board to identify the key issues, together with a heavy emphasis on financial and operational matters, which facilitates insufficient focus on strategic issues in the boardroom.

The board has a responsibility to ensure it receives the information it needs for effective decision-making - in the right detail, on the right topics and at the right time. These are areas where the Chair and the Board Secretary should be working closely together to ensure the implementation of a smooth and effective reporting process to benefit both the board and management, and ultimately the organisation’s performance. More on this a little later.

**How to improve quality?**

The information provided by management to the board must create value. It is worth highlighting five pertinent characteristics which, if present, have a huge impact on the quality of this information.

Firstly, clarity. The use of clear and simple language in board reports (e.g., define acronyms and explain abbreviations; keep sentences and paragraphs short) and the appropriate addition of graphs and charts can have a powerful effect in enhancing understanding and ease of digestion. It goes without saying that board papers should be presented in a professional way and that grammar, spelling, sentence structure and syntax should be reviewed for quality and clarity.

Secondly, relevance. Information should be appropriate and suitable for the purpose for which it is required. What is relevant for management may well be irrelevant for the board. Information which summarises key issues and highlights the position is much more likely to be appropriate for the governing body. Balancing enough information against too much detail, and the desire to add information 'just in case', is often a challenge for management. Balance should also
be achieved between qualitative and quantitative factors and the integration of non-financial and financial reporting. In addition, there is a need to ensure external influences from stakeholders are taken into account to avoid overly inward views being presented to the board and a necessity to focus more on the organisation’s future, rather than historical operational and financial facts.

Thirdly, timeliness. Information must be provided at the right time to be of value; information received too late can make it totally irrelevant. Ensuring board papers are submitted in sufficient time, at least one week prior to meetings, to allow them to be read and digested is of critical importance. Board packs submitted late can promote misunderstanding, lengthen board meetings and weaken effective decision-making.

Fourthly, reliability. Simply stated, accuracy is essential. Information should also be complete (excluding key information can mislead or manipulate opinions), objective (subjectivity should be avoided) and be able to be relied upon in making decisions.

And finally, accessibility. Many organisations have adopted digital board portals in order to streamline communication with their boards. This is more secure than traditional distribution systems and enables information to be accessible to directors no matter where they are - in the office, traveling or on vacation. It can save valuable time (and money) for the organisation and its staff, and facilitate a timely two-way flow of information with the board. A board portal also has the benefit of providing a governance depository for board packs, minutes, policies, charters and many more.

Working together

Steering back to how the Chair and the Board Secretary working together can instil a force for change to support good governance within board reporting.

It is the Chair’s responsibility to ensure board members get the information they need from management - to understand the business, evaluate risks and rewards, formulate strategy and to make effective decisions. The Board Secretary, reporting to the Chair, facilitates the Chair’s responsibilities, provides an invaluable bridge between the board and management and is often the governance champion within an organisation.

Board reporting policy

Given the importance of communication between management and the board, it makes good sense to give this focus in the form of a board reporting policy - to be drafted by the Board Secretary in consultation with senior management to facilitate their feedback and buy-in, and to be approved by the board. This should be a living document with an annual review, ideally as part of a company’s board evaluation process. Three key elements should be incorporated.
Firstly, the right detail - Uniformity and consistency of information can be achieved by introducing a board paper template. Both management and the board will welcome this initiative. It supports management by providing a practical framework in which to provide the necessary details for the decisions it seeks. If required, a link to further information can be embedded or a report annexed to the paper. The template benefits board members who receive a consistent and concise paper for consideration, enabling key points to be identified quickly and reducing review time and ultimately the length of board packs. The template will typically be of no more than two sides of A4 and incorporate the following headings as well as guidance as to how much detail is to be included:

- **Purpose** - a sentence to explain the purpose of the board paper (e.g., to consider moving the company’s HQ).
- **Background** - a paragraph to cover the situation and any relevant background details (e.g., the current HQ is too small and key executive staff members are occupying multiple satellite offices; the HQ lease expires in 18 months).
- **Goal** - a brief paragraph to explain the aim or objective of the proposal (e.g., to incorporate all staff into a new HQ, improving communication and staff engagement, and reducing costs).
- **Matters for consideration** - a summary of the key risks (e.g., legal, regulatory, operational), costs (e.g., actual and opportunity), options (e.g., alternatives for consideration) and rewards (e.g., benefits of decision).
- **Action** (e.g., seeking approval of management’s proposed recommendation or course of action regarding a new HQ).

Secondly, the right topics - It can be unclear as to which matters should be decided by management and which should be decided by the board. This can be exacerbated by a dominant CEO who sees the board as an unnecessary burden and believes management should be making all the key decisions, or a micro-managing board which muddies the line between operational and strategic decisions. This issue can be simply remedied by producing a list of matters reserved for the board’s review and decision, which is approved by the board. Importantly, this also helps ensure matters included in the agenda for board meetings are focused on the right topics which in turn facilitates board engagement and can help reduce the length of board meetings.

Thirdly, the right time - The policy should detail board communication timelines and deadlines which are achievable and agreed by management and approved by the board. In particular, these should include (drop dead) submission timelines for papers prior to board meetings.
Netflix - reinventing board communication

In May 2018, David Larcker and Brian Tayan from the Stanford Graduate School of Business published an article in the Harvard Business Review about a radical new approach to board communication which has been implemented by US streaming giant Netflix. This incorporates two unique practices.

Firstly, communication with the board is structured in the form of a short (approximately 30-page) online memo that allows board members to ask questions and comment within the document. High-level data is summarised in charts and graphs, but the document’s emphasis is primarily written discussion and analysis of issues. This quarterly memo, written by and shared with the top 90 executives as well as the board, is sent out a few days prior to board meetings. It includes embedded links to supporting analysis, and unusually the board has open access to all data and information on Netflix’s internal shared systems. Management can amend the text of the memo and answer questions in what is essentially a living document. As board members are well prepared, Netflix’s board meetings are much more efficient, with a focus on questions and discussion rather than presentation. Significantly, meetings are generally only three or four hours in length (compared to all day meetings at many large organisations).

Secondly, board members periodically attend (as observers) monthly and quarterly senior management meetings providing transparency and extensive insight into the company’s operations. Larcker and Tayan believe these two innovations have sharply contributed to Netflix’s impressive performance in recent years.

One of the most important responsibilities of the board is oversight, however this is often hampered by a lack of transparency and useful information.

Netflix’s approach to governance provides an interesting model for companies wishing to overcome this challenge.

Final thoughts

Jim Collins, the American author on company sustainability and growth, wrote that “Bad decisions made with good intentions, are still bad decisions”. Bad decisions are inevitable in all organisations from time to time, but these should not be the result of bad information. Without a doubt, it is worth devoting time and pinpointing focus on improving board reporting in organisations both big and small to achieve quality decision-making and to facilitate sustainability and success well into the 2020s and beyond.

Sources:
ICSA and Board Intelligence’s Challenges to Effective Board Reporting research is available at www.icsa.org.uk/knowledge/research

The research “Netflix Approach to Governance: Genuine Transparency with the Board” undertaken by David Larcker, professor of accounting and Brian Tayan, researcher from the Stanford Graduate School of Business, is available at https://www.gsb.stanford.edu/faculty-research/publications/netflix-approach-governance-genuine-transparency-board