

Board Intelligence

Ever since the dramatic market events of 2008, the way companies are run and the way boards function has become a hot topic of debate amongst directors, commentators, regulators, investors and the general public. Scrutiny has, quite rightly, been placed on the competence and the diversity of the people appointed to PLC boards, but another critical determinant of an effective board has been largely overlooked: the information board members receive from the executive with which they do their job.

Boards exist to supervise and steward, but their effectiveness depends on the scope and quality of the information they receive. The monthly information pack provided to the board is one of the key communication channels between the executive and non-executive (NED), yet our research and experience has shown that the scope and quality of this information is often inadequate.

Board directors share the responsibility for board decisions and strategic direction. But with limited access to the right information, it is difficult for NEDs to fulfil their role. Highly skilled and experienced NEDs are not enough if the information they receive is of poor quality.

We believe that improving the quality of information available to corporate boards is one of the most powerful ways of improving board effectiveness. Well-informed directors are far better placed to add value and high quality board information can help overcome the inherent information asymmetry at the heart of corporate governance. We would like to see a demonstration of best practice in this area incorporated within Corporate Governance Codes.

We have outlined below the impact of information on the effectiveness of a board, why current board materials are often found wanting and what can be done to improve the quality of information reaching our boardrooms.

The importance of effective board materials

Boards provide supervision and stewardship as well as independent insight and specialist expertise.

However, one cannot expect the challenging questions and well-informed decisions that are required of directors, without first providing them with an adequate picture of events. NEDs have limited time and resources to obtain information beyond what they receive from the executive so the importance of the board information pack should not be underestimated.

As the principal briefing tool and the stimulus for debate at board meetings, a carefully constructed and coherent board pack is thus fundamental to an effective board. The board pack is the main timely source of company and sector insight for many directors and it also shapes the board's focus and agenda. A good pack will allow directors to arrive at meetings fully prepared to debate the things that matter and add real value to the business. On the other hand, a poor pack will leave them hamstrung.

The challenges of producing effective board materials

At Board Intelligence we specialise in developing highly effective board materials. Our experience has shown that, despite their importance, high quality board papers are surprisingly rare.

Board packs have a habit of growing with every year that passes and contributors to the pack are numerous with no overarching control. The pack becomes bloated and cumbersome and whilst some individual reports may be excellent, others in the pack can be virtually unreadable, riddled with legacy information, duplication and poorly explained charts and tables.

This is, perhaps, not surprising when one considers the difficulties involved in creating a truly effective pack. Firstly, executives are busy running the company and finding someone with the appropriate perspective and skillset to do justice to the task is not easy. Tying everything together into a coherent story requires a birds-eye perspective of the business – the sort of holistic view to which only the chief executive within the business tends to be privy.

Furthermore, a report on the entire business has many stakeholders, ranging from the board to the individuals responsible for contributing to the pack. All will have their own views on what constitutes important, board level information and achieving change on a meaningful scale will require buy in from the majority of these stakeholders.

Even with the will, resources and support in place to implement a change, the question as to what really constitutes effective board materials has not been made clear. Little guidance can be garnered from the UK Corporate Governance Code which provides the open ended statement that: *“the board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties”* leaving many companies to ‘go it alone’, with no way of knowing what best practice looks like.

Our experience is that board packs are often almost entirely made up of backward-looking financial data and that forward-looking performance indicators and strategic issues are under-represented. This focus on retrospective internal matters within the board pack has an inevitable impact on the content of the discussion that ensues within the boardroom.

Clearly there is no one size fits all solution: each company will have its own unique set of concerns that need to be reflected in its pack. A growing company, for example, needs to emphasise strategy and organisation, while, one managing a crisis should focus on operational data and customer support. Yet whatever the fortunes of the business, the purpose of a high quality pack and the standards required remain the same.

A pack should exist to tell the clearest and most concise possible story of the company’s state of affairs and likely future outlook verses plan, allowing directors, executive and non-executive alike, to spend more of their time discussing how to improve the business and its outlook. It will mean more informed strategic debate and more productive board meetings. Both the executive and non-executive will benefit from better materials and debate, and ultimately it will allow the business to reap the full value of the talented people it has recruited for its board.

Creating better board materials

We have consulted over 25% of the FTSE 100 and FTSE 250 on their board materials. Through this experience we have outlined some of the most common problems and ways to improve the materials, to generate considerable benefit for a company. In this paper we have focussed on common development areas for board materials, rather than the difficulties associated with implementing change, and have categorised our findings into four sections: Structure, Scale, Scope, and Systems.

Structure

A high quality board pack should follow a consistent structure that does not change month on month. Rather than dotting non-standing items throughout the report, they should be sat at the back where they can be accessed for a more detailed look without interrupting the overall flow of the regular report.

The regular reports should not read like a presentation that make no sense without narration. They should be self-contained as well as together telling a holistic story of last quarter’s performance. A board pack that shows a clear picture of performance over time can help build trust between the executive and non executive and keep the board working together for the benefit of the business.

The structure of the pack should make it easy for the reader to piece together a clear picture and to understand which parts of the business are driving performance. A board pack should be structured in a logical and intuitive manner with tabs and trackers that make the structure explicit and help readers navigate and know where they are, so they can quickly and easily grasp the key points.

The pack should also include a short introductory note from the chairman stating what he or she wants the directors to be thinking about as they read the papers and prepare for the meeting. An executive summary supported by a dashboard of key performance indicators will deliver the key messages that the reader can expect the pack to expand upon in the more detailed monthly performance analysis.

Each page should tell a story, with commentary supporting the data provided, which draws out key insights and indicates planned responses. The data should not be buried at the back of the pack – it should sit adjacent to the table or chart to which it relates, so that its points remain ‘live’ to the reader as they read. Data should never be presented without a target or indication as to whether performance is good or bad. A Red, Amber, Green (RAG) approach can help directors to see at a glance what the key messages are in the data and will allow them to better able focus their attention on the important issues at hand.

Scale

Concise is the magic word here. The reporting of financial data may be essential, but board packs tend to include so much of this sort of data that half of it is of hardly any use. In order to trim the pack down and make it more manageable, each contributor should answer a specific question: ‘What does my report intend to tell the reader?’ The answer to this is key. It will avoid any temptation to ‘data dump’ and quickly show just how much operational detail can be slotted into an appendix, or removed altogether, and will result in a board pack that’s far more engaging, more strategic and, crucially for time-pressed executives, shorter. Information can often be visually presented in a more concise manner than is frequently realised. We would challenge whether reading a board pack over 150 pages is an effective use of director time and whether creating such a document is an effective use of the secretariat’s time.

Scope

In our experience, many boards of the UK’s largest organisations spend far too much time immersed in retrospective financial information and far too little time challenging what the future may hold and where the threats and opportunities will come from in the medium-long term. A contributing factor to this situation is the board pack that board members receive as a stimulus prior to a board meeting which are too often almost entirely made up of backward-looking financial data with forward-looking and strategic issues greatly under-represented. This focus on retrospective and internal matters within the board pack has an inevitable impact on the content of the discussion that ensues within the boardroom.

The reporting of financial data is undoubtedly central to the supervisory role of boards, but it is often overrepresented. The stewardship role required of the board should involve the consideration of more forward-looking strategic information; it demands considering the question ‘how is the company performing against longer-term strategic aims?’ Board packs should provide better quality insights by showing where you’re really heading, not just how you’ve done.

A forward-looking board pack that promotes a long-term focus contains more than retrospective financial data. In line with the balanced scorecard philosophy, the finance report should be balanced by reports on the internal drivers of financial performance, such as customer satisfaction, personnel attrition, productivity, product pipeline, and other operational indicators. These will often provide greater insight into the future prospects of a business, rather than just the previous period’s financial results.

Equally important is the external operating environment. A summary of developments in the customer base, supplier/distributor dynamics, the competitor landscape and the regulatory environment should be an integral part of a quality board pack as they all provide an indication of opportunities and threats on the horizon.

Awareness of risks facing the business should therefore feature throughout a quality board pack, but there should also be a regular risk report providing a comprehensive account of major risks to the business and the actions being taken to mitigate them.

None of these features need to mean an unwieldy board pack. By focusing on the business drivers and avoiding a data overload, you open up space to look at the bigger picture and the question of how the company is performing against its longer-term strategic aims. The board pack should include this breadth *and* be under 150 pages.

Systems

A tech-savvy approach can boost both the presentation of the board pack and make it easier for directors to read. Digital board packs can have extra functionality, including better navigation, data drill-downs and clickable charts and tables that enlarge the image and reveal the data beneath it for more in-depth analysis. It can be carried around on an iPad and read on the train or plane without impinging on security.

An online board portal can be used to provide access to the raw data for those directors that wish to view it and can include interactive functionality which could help increase communication between board members and the executive outside of board meetings. Ideas can be shared and questions raised in a secure online environment before the board meeting, which further fuels the strategic debate.

The benefits are not just limited to the directors either. A digital pack and online board portal can help improve the production and distribution of board packs, automating the data production element of monthly reporting and therefore reducing the burden on management to produce the pack. The compilation process can also be automated to ensure the company secretary is not spending hours chasing contributors, before printing, binding and couriering the document.

Conclusion

What should a director expect to get from a board pack? Fundamentally, the board pack should act as a pre-read for board members, and support their roles as both supervisor and steward. It should allow them to see how the business has fared in the past, in matters both financial and non-financial, as well as how well their agreed strategy is guiding them towards their goals. Finally it should spark debate and steer board members towards good decisions. What it shouldn't do is leave the team wasting half the meeting going through the material together, because they couldn't summon the inner strength to wade through it alone beforehand. No page should be unturned in a truly effective pack and every page should be readable, insightful and stimulating.

Quality board materials will make your board more productive and lead to more informed decisions, as well as bringing them into line with best practice governance standards, as set out in the UK Corporate Governance Code and FRC *Guidance on Board Effectiveness*. Debate will become more informed and more strategic, striking the right balance between short and long-term considerations; and your executives and non-executives will have made more efficient, effective use of their time.

A streamlined and effective pack transforms a board's ability to communicate the subjects and issues that matter most to directors, providing a valuable tool to both executive and non-executive directors alike, enabling them to make better decisions.

Below are our top 10 tips for how to improve board materials to start companies on the journey of creating a more effective board:

10 tips for creating dynamic board packs

1. Create a coherent narrative. Each page should tell a story, and form a logical part of the wider whole.
2. Consider what questions you are trying to answer for the reader, to help you decide what data is really important.
3. Use tabs and trackers to make the structure explicit and help readers know where they are.
4. Keep it short.
5. Don't include every detail every month – make sparing use of 'deep dives' and exception reporting, so that such information has more impact when it is included.
6. Include commentary next to every table and graphic, so that directors can easily extract the 'so what'.
7. Look forward, as well as back.
8. Go beyond the numbers, to include a wider picture of the health of the business.
9. Aim for snappy and effective, not overbearing and sluggish.
10. Consider cloud hosting. Ease the burden of distribution by providing access to a secure online portal, to download both a print copy and digital board pack.

About Board Intelligence

Board Intelligence specialises in developing highly effective board materials. More effective board materials provide more focused, higher quality business intelligence that improves the quality of debate, supervision and stewardship in the boardroom.

Board Intelligence was formed from the Board Practice at JRBH Strategy & Management. JRBH was founded by Jennifer Harris and has been providing strategic advice to executive teams for over 10 years. The firm's expertise in communicating strategy to the boardroom and a thorough understanding of what makes boards effective has uniquely positioned us as the market leaders in board effectiveness.

About Pippa Croney

Pippa Croney co-founded Board Intelligence and the Board Practice at JRBH and in 2010 received a prestigious award from Management Today for "her role in reforming UK board practices". Before joining JRBH, Pippa gained over 5 years experience in the financial services industry, most recently as a Director of a hedge fund. Prior to this, Pippa worked as a Senior Manager for a consulting and asset management firm concentrating on business and strategy development. In both of these roles Pippa was engaged in board level discussions and meeting preparation. She also gained valuable experience working in financial regulation at the HM Treasury and was actively involved in industry consultation and policy formulation.

Pippa is a member of the European Corporate Governance Institute and the UK Society of Investment Professionals and has provided guest lectures on the investment industry to business schools. Pippa holds an MA in Natural Sciences from Cambridge University.